SMALL AND MINORITY BUSINESS IN THE DECADE OF THE 80's (Part 3)

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BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

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SMALL AND MINORITY BUSINESS IN THE DECADE OF THE 80's (PART 3)

MONDAY, MARCH 15, 1982

House of Representatives,
Committee on Small Business,
Philadelphia, Pa.

The committee met, pursuant to notice, at 9:16 a.m., at the Kiva Room, Temple University, Ritter Building, 13th and Montgomery Streets, Philadelphia, Pa., Hon. Parren J. Mitchell (chairman of the committee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. Mitchell. Good morning. This hearing will now come to order. On behalf of my colleagues on the House Small Business Committee, I welcome you to the committee's fifth field hearing. I am pleased to have several members of the Small Business Committee in attendance. After I make my opening statement, I will call on each one of them if they wish to make an opening statement.

It is a particular pleasure to be with Congressman William Gray, who has enjoyed an almost meteoric rise since he came to the U.S. House of Representatives. It was many a long year before I could even be considered for a chairmanship of a subcommittee. Now, Bill Gray is not only a chairman of a subcommittee, he has moved meteorically. He has been very, very cooperative, he and his staff, in helping us put this hearing together.

I also want to thank Temple University and Dr. Edwin Atkins, who is the associate vice president. I must say this is one of the nicer hearing rooms we have been in on these field trips. I was amazed when I learned that lunch is prepared for us, my colleagues, which is unusual. Generally, I get a bowl of soup or something; so it is very good.

In January 1981, I was elected to chair the House Small Business Committee. One of my first actions was to institute a policy of taking the committee out into the field for these hearings. I was just determined that we ought to do that. The hearings in Washington are good and necessary. But very often it is prohibitive with the cost and the time for small businesses to come to Washington. Therefore, one of my first decisions was to have field hearings throughout the country. Last year we had four such field hearings. We planned at least four this year, in the event that the House Administration Committee does not cut our budget further for field trips.

Obviously, we want to come out to small and minority business communities which are the foundation of this Nation's economic system. As you can see from the graphics displayed around you, in all areas of measurement of business trends, indices are at an extremely dangerous level, either dangerously low or dangerously high. In 1981, business failures increased by 5,301 or 45 percent. Nonfarm business income dropped by $2.3 billion in 1981. It is expected to drop another $3.3 billion in 1982. Bankruptcy filings in the U.S. courts rose in 1981 to about 47,000 bankruptcies in one year. This number is 5,000 more than the 1980 figure, and nearly 16,000 more than 1979.

Our greatest concern across the board, it seems to me, has been the interest rates which have risen very sharply. While a small businessperson would have once expected the prime interest rate to average 2 percent above the rate of inflation, the reality is that in 1980 the prime exceeded the inflation rate by 6.3 percent and in 1981 by 9.7 percent. In Congress, the House of Representatives and the Senate, that is made up of two majority parties, I think there would be no disagreement when I say that there is concensus on both sides of the aisle with both parties, that something must be done to reduce these interest rates; they did drop slightly. Based on some readings that I did over the weekend, I expect to see an increase again in the prime rate and in interest rates.

In view of these conditions, it is critical that the administration begin to foster policies which will support small and minority businesses.

By the way, I am delighted to see a statement that came out of the Republican meeting in eastern Maryland. A resolution was adopted calling for the Republican Party to show a greater attention to the concerns of blacks. That was introduced and passed by that group that met over the weekend, and that is very encouraging.

On February 25, 1982, this committee held a hearing in Washington to examine the administration's budget proposal for the Small Business Administration. That budget is the major source of all assistance to small businesses. I was totally upset by the budget that was submitted by the administration. It was a bad budget. We certainly felt that there was nothing good in it for the small businesses in that budget. The administration made a series of proposals to further reduce funding for the Small Business Administration, which I will not go into.

We worked out a budget figure with the minority and majority members of the House Budget Committee, a budget figure to be submitted by the 15th, which is tomorrow, to the House Budget Committee. I am not totally happy with that budget submission. However, I must say that it is a great improvement over what was proposed by the administration.

In today's hearings, we will focus on a cross section of problems and opportunities affecting the small and minority business community. Since January of last year, the administration has moved to implement a new economic recovery program, small and minority business program changes, deep agency budget cuts and business taxes. In view of these major changes, I believe that it is imperative that the Congress and especially the House Small Business Committee continue its systematic investigation of the impact of such broad new policy directions on small and minority business and on the ability of the Federal agencies to implement the laws of this land.

In this year's field hearings we will discuss, among other things, the impact of high interest rates, inflation, the scarcity of equity capital. We will hear from local elected officials and Federal Government employees. Today we are pleased to have a broad range of representatives from the backbone of the Nation's economy, the small and the minority business community.

I would like to take just a moment before we actually get to our first witness to introduce some of the staff members. Ms. Dana Stebbins is seated next to me. She is legal counsel for the House Small Business Committee. The gentleman with the pipe and the gray suit is Mr. Major Clark, who is the staff director for the House Small Business Committee. I am delighted that so many of my colleagues have shown up for the hearing and at this juncture I would like to start with Congressman Gray, in whose district we find ourselves. I must say that without his help we probably would not have been able to have these hearings.

Congressman Gray, do you want to make a brief opening statement?

OPENING STATEMENT OF HON. WILLIAM H. GRAY III, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. GRAY. Thank you, Mr. Chairman. First of all, I would like to welcome Chairman Parren Mitchell and the other members of the House Committee on Small Business, Congressman Staton, Congressman Weber, Congressman Smith, to the city of Philadelphia, which we like to refer to as the City of Brotherly Love and Sisterly Affection, for today's hearing on the problems facing our area's small and disadvantaged minority business. At best, times are hard for all sectors of the economy. The very existence of private enterprise and particularly the small and minority businesses are threatened by the economic crisis we are experiencing throughout this Nation today. Quite simply, high interest rates are literally killing all small and minority businesses nationwide at record rates. Official court filings show that business bankruptcies nationwide are occurring at a record rate of some 4,000 per month, not including those businesses who have just decided to close their doors.

Unfortunately, the overall situation here in Philadelphia is no less bleak. During the last 10 years, Philadelphia has lost some 114,000 jobs. Yet, at the same time, the city's population has not declined proportionately to the job loss. The reality of this job loss translates into a jobless rate of over 14 percent citywide, the highest of any urbanized area in the Commonwealth of Pennsylvania, with one out of every five black adults now out of work. It would also appear that Philadelphia minority businesses, who have the potential to create thousands of jobs over the next few years, are not participating fully in Government procurement activities. Additionally, many of the programs aimed at assisting minority businesses at the Small Business Administration are not working as effectively as they could or should. These are just a few of the concerns which face us here, Mr. Chairman and colleagues, in the Philadelphia area, as we strive to create a progressive environment for small and minority business development.

Mr. Chairman and colleagues, thank you for coming to Philadelphia to hear our small business community's concerns, and I welcome each of you.

Mr. **Mitchell**. Thank you, and thank you again for your cooperation and assistance in putting this hearing together. You and your staff, Mr. Mondesire, and others.

I will ask Mr. Staton, a member of the committee, if he has an opening statement.

OPENING STATEMENT OF HON. DAVID MICHAEL STATON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WEST VIRGINIA

Mr. **Staton**. Thank you very much, Mr. Chairman. I appreciate your leadership, Mr. Chairman, in bringing these field hearings, as you had mentioned, out of Washington and into the area of the country where the small business people live and work. I believe it is a credit to your handling of this committee that we are able to participate so much in these hearings. It has been a good past year in the Small Business Committee and I expect that we are going to have an equally active and productive 1982.

I would at this time, Mr. Chairman, ask unanimous consent, that Congressman Bill Gray be permitted to participate in these hearings to the extent that he desires to do so.

Mr. **Mitchell**. Without objection, we certainly want him not only to sit with us, but to raise questions just as if he were a member of the committee today.

Mr. **Staton**. Mr. Chairman, I look forward to these hearings and I hope that we can move swiftly through them so that everyone will get an opportunity to state their case and to have adequate questions from the members here.

Again, Mr. Chairman, I thank you for your work in this area and I hope that we will have a good hearing today.

Mr. **Mitchell**. Thank you very much.

Mr. Weber?

OPENING STATEMENT OF HON. ED WEBER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. **Weber**. Thank you, Mr. Chairman. Let me say to the people who are here, and also to you, that it is a pleasure for us to hold these hearings in Philadelphia today. We thank the people at Temple University for making these facilities available and I want to thank you, Mr. Chairman, for bringing us together. Also to thank the witnesses who have come, some of them from great distances, including one of the witnesses from my home city of Toledo, Ohio.

Mr. Chairman, we are all very concerned, as I hope that all of us realize in this room, about the problems of small business, about the problems of the economy, and the recession that this country is in. I would hope that people would not lose sight of the fact that at the time that I took office in January 1981, this being my first term, interest rates were at 22 percent and the inflation rate was at 12 percent. I believe that things are at least going in the right direction, although the direction has not been gone into as fast as we would like to get the economy turned around.

I believe that the major source of assistance to small business during the 1980's is not going to come from various kinds of Government programs and bandaids that we can administer in Washington. The major form of assistance to small business during the 1980's is going to come from the economic renewal of this Nation. As we expand our economy, small businesses are going to have their share, and, in fact, a very major share of participation in that economic expansion and renewal.

As you have said, Mr. Chairman, the whole key to economic renewal is the high interest rates that we are experiencing today. The highest in our history, so far as I know. The key to getting interest rates down is holding the inflation rate down. I am happy that at least last month it showed an annual inflation rate of only 3½ percent.

Another key to getting interest rates down is controlling the amount of the Federal deficit, and most of that means controlling the amount of spending. Unfortunately, we do not have enough Federal dollars to go around to all the programs that we would like to spend money on, and as we spend money on additional programs, including small business, we increase the size of our Federal deficit, so that is a problem.

Then, the third key to getting interest rates down is enhancing the incentive of Americans to save their money, to expand the pool of lendable funds. Therefore, create more dollars that can be loaned out to the small businesses of the country. So, I am very happy to be participating in these hearings today to find out what we can do to improve the programs that we now have in place for small businesses and to make sure that the Federal dollars that are being expended, and we are spending millions of dollars of Federal money on small business programs, to make sure that those dollars are being spent in the wisest and most advantageous way. To make sure that regulations do not impede small business, but assist small business to be able to participate in the economy of our country.

Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you.

Mr. Smith, do you have an opening statement?

OPENING STATEMENT OF HON. CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. SMITH. Thank you, Mr. Chairman. I am very happy to be here and I am happy to see the kind of participation the committee has shown today.

I, personally, have been holding a series of town meetings in my district, Mr. Chairman, which have been parallel to you taking the committee on the road like this. I have had about 36 town meetings in my district, and 12 one-to-one meetings. I have learned first hand the worth of going out to the people, to the community, asking them what the problems are and how we, as a committee, can be more responsive to those needs. We will hear from many witnesses today who will reflect on access to capital, some of the problems that they are having with the interest rates, and some of the procurement problems that they are facing with obtaining Government contracts. What we receive from this hearing and the questions that hopefully we will ask of today's witnesses, will help us to go back to Washington and hopefully, formulate a policy that will better aid our small businesses.

We know close to 15 million small businesses in this country are hurting; they employ over 100 million people. They are the largest employment sector in the entire economy. Of all new jobs in this country, 89 percent are created by small business, according to the White House Conference on Small Business, which was held a few years ago. So it is a very vital segment of our economy and I think that we, on this committee, have a sacred trust to do all we can to help small businesses, and I believe this kind of hearing helps us to make better policy decisions. Again, I would like to commend you for coming out and bringing the committee out like this to obtain this kind of information.

Mr. **Mitchell**. Thank you very much.

I thank all of my colleagues for their opening statement. For all the witnesses who are to testify today—and I think we have some 15 witnesses—I would like to suggest that we have copies of your written statement. Your written testimony will be presented in its entirety for the record of this field hearing. Therefore, when you testify, you have two options: one is to summarize your statement, since we have had the opportunity to read it, and then we can get into questions, which I think is meaningful; or if you so desire, you can present your entire testimony. I would urge you to consider option A, in view of the long list of witnesses that we have to testify today.

Our first witness is Ms. Shirley Dennis. Shirley M. Dennis is Secretary of the Pennsylvania Department of Community Affairs. We are just delighted that you could take time from your busy schedule to be with us. Thank you.

TESTIMONY OF SHIRLEY M. DENNIS, SECRETARY, PENNSYLVANIA DEPARTMENT OF COMMUNITY AFFAIRS, ACCOMPANIED BY NICK DiBENEDICTOS, EXECUTIVE DIRECTOR, GOVERNOR'S ECONOMIC DEVELOPMENT COMMITTEE OF THE CABINET

Ms. **Dennis**. Thank you, Mr. Chairman. I am certainly pleased to be here. I have with me, on my right, Mr. Nick DiBenedictos, who is the executive director of the Governor's economic development committee of the Cabinet.

I will elect to use the first option, Mr. Chairman, and I will try to summarize my statement. I think that it is important for the committee, though, to be aware of why I am testifying on behalf of the Thornburgh administration.

I am secretary of the department of community affairs. In addition, I serve on the board of the Pennsylvania Industrial Development Authority. I am a member of the Pennsylvania Minority Business Development Authority. I am chairperson of the Pennsylvania Housing Finance Agency. So in those capacities, I have become acutely aware of the problems of small businesses. Within my own department, we have inaugurated several activities that we think will help small businesses. One of the areas that we are working in, and we are developing, is an area we call the enterprise development areas. In the Governor's budget presentation before the general assembly this year, he has asked that we set aside a portion of our housing and development funds for enterprise development. We expect to bring together all of the resources of State government to help depressed areas and particularly to help small businesses in those areas.

We also have several block grants that we expect to use in a constructive manner, to help with the enterprise development program. I think it is also important to note that in the Thornburgh administration we have an administrationwide effort to promote and enhance the climate of small business development, and I would like to just highlight a few of those.

When Governor Thornburgh came into office one of the first things he did was set up a 23-member small business council. We have done a great deal of work to see what changes we needed to make at the State level to improve the climate for small businesses. Some of what we have done relates to reducing the regulation burden and the unemployment compensation burden. We have also done what we could to restructure the Pennsylvania Industrial Development Authority, to allow it to be more useful for financing small businesses. So that 39 percent of PIDA loans now do go to small businesses.

A highlight that I particularly want to focus on is the Small Business Action Center. Most small businesses said to us that they could not find their way through the redtape maze of Harrisburg. In setting up the Small Business Council, we find that they have taken over 13,000 calls that have cut through the redtape, because the estimation is for every call that they take, they save the callers 17 calls to other State agencies.

I think it is also important to note that the Commerce Department has been reorganized, and in the reorganization it has created an Office of Small Business. It has set up a State office of minority business enterprise, which solicits participation by minority contractors. We have increased minority contracts from a low of $715,000 in 1979 to $11.5 million in 1981, a tenfold increase, and we are still not satisfied and we will be doing more in 1982. We hope to raise that figure to $15 million.

We also, of course, in the State of Pennsylvania, realize that we are a heavy tourist area. We are promoting that extensively. We are using our campaign, "You have a friend in Pennsylvania." We recognize that tourism is important to us in Pennsylvania because over 190,000 people are employed in that industry.

I think also that our office of procurement information, a central one-stop office for vendors and contractors who want to do business with the State of Pennsylvania, is important to highlight, because, particularly for the small businesses, they are able sometimes to get advance information on work that will be publicly advertised.

So it puts them in a position to promote bids that are very important.

I think that the final statement I would like to make, Mr. Chairman, is that the small business manufacturers in Pennsylvania have named Governor Thornburgh a small business advocate for 1981. That is, perhaps, the best statement that I can make about what we have been trying to do at the State level to promote small businesses in Pennsylvania. Thank you very much.

Mr. MITCHELL. Thank you for your statement. I know we have questions; let me commend you on the efforts that have been made up to this point, but I have several questions that I would like to raise.

In the State of Pennsylvania, is there any sort of a law which sets aside a portion of the State's procurement and other activities for small and minority businesses?

Ms. DENNIS. There is not a set-aside currently at the State level, Mr. Chairman. I understand there is legislation pending. In the administration we are happy, of course, to work with that committee that will be working on that set-aside.

Mr. MITCHELL. I am very interested in this because my years of experience in public service have told me that over the long haul the only way you really accomplish an objective is through a set-aside. I know some persons will take issue with that, but it has been my experience in the almost 12 years that I have been in Congress, and in other areas of public service before that, that the mere statement of goals is not enough; we very often must have law. You mentioned your enterprise development activities; when did they get started?

Ms. DENNIS. We have initiated the enterprise development proposal as part of our 1982 budget, which would go into effect in July 1982.

Mr. MITCHELL. Then it is not in effect now?

Ms. DENNIS. No; it is not.

Mr. MITCHELL. Did this come about because of the plethora of conversation about an urban enterprise zone, or was this an independent force that led you to move to your enterprise development program?

Ms. DENNIS. We have done it in concert with our understanding that there will be some enterprise development activity at the Federal level. However, we recognize that in Pennsylvania, if what happens at the Federal level occurs, that we would receive only about three communities maximum for enterprise development activity in the State. Our program would include some 20 to 30 communities and it would include both small and urban and rural communities. So, we are trying to direct our enterprise development activity to all our communities and to provide resources, other than just tax credits.

Mr. MITCHELL. It is my understanding that the central thrust of the administration's urban enterprise zone approach is through tax credits. I have some concerns about that: No. 1, under the tax laws that were passed last year, businesses, in general, and small businesses, in particular, through the efforts of this committee, did get some tax breaks. My concern is that I am not at all sure that we need additional tax incentives for the urban enterprise zone.

What most small business persons tell us is that they need capital to be effective in any kind of enterprise zone approach. What is your thinking on a method by means—well, first of all, do you feel that capital, the access to capital, is critical for an urban enterprise zone approach?

No. 2, what is your thinking as to how that capital might be made available?

Ms. DENNIS. We believe, in Pennsylvania, that the small businesses will need some capital assistance. We are looking at small business incubators. We are looking at loans and, indirectly, we are looking——

Mr. MITCHELL. Loans from where?

Ms. DENNIS. From the Pennsylvania Industrial Development Authority, the minority development authority, and possibly through our housing and development enterprise development program. We are looking at a way in which we will be able to develop a fund that could provide some loans for them.

Mr. MITCHELL. Do you have a loan structure in place in the State?

Ms. DENNIS. I am not sure I understand that question.

Mr. MITCHELL. You said that you were looking for a mechanism by means of which loans could be made to small and minority businesses.

Ms. DENNIS. No; that is already being done. I am talking about with our new enterprise development program. That is already being done. The loan structure is already with the Pennsylvania Industrial Development Authority and the minority development authority.

Mr. MITCHELL. All right. What is the interest rate? What is the interest rate on those loans?

Ms. DENNIS. It ranges, depending on the unemployment rate in a given area. But it is very low, around 4 percent and, in some cases, I guess it is as high as 8 percent, but generally, it is below 10 percent.

Mr. MITCHELL. Four to eight percent?

Ms. DENNIS. Yes.

Mr. MITCHELL. On the average.

Ms. DENNIS. Yes.

Mr. MITCHELL. What is the maximum amount of loan that can be made through this mechanism?

Ms. DENNIS. For the Pennsylvania Industrial Development Authority, we try to keep the figure at below $5 million. For the minority business authority, it ranges around $200,000.

Mr. MITCHELL. All right. I have lots more questions, but I will raise one more and then quit. Pennsylvania, like most other States, is heavily engaged in construction.

Ms. DENNIS. Yes.

Mr. MITCHELL. There is a great deal of construction activity. I know in my own State of Maryland there is a great deal of construction activity, both through the State and through the private sector. We have found increasing difficulty, or have experienced increasing difficulty in getting minority contractors plugged into the construction that is going on. I know in some instances, in some States where I have visited, there has been no minority participation. In other States it has been minuscule: 1 percent, 2 percent, or less. Can you give me a rough figure as to about how much State money went into construction in 1979?

Ms. DENNIS. I do not know. I am going to ask Nick DiBenedictos if he can respond to that at all.

Mr. MITCHELL. Fine.

Mr. DIBENEDICTOS. The State contracts are in two ways. The department of transportation, which is a separate fund of the State, and the general fund, which most of our purchases at the State level are made out of the department of general services.

Mr. MITCHELL. Excuse me, Mr. DiBenedictos. Let me amend that and not make it just construction. Why not do it across the board, because that is what I would be interested in: from paper clips to mortar.

Mr. DIBENEDICTOS. Right. The figure is about $400 million.

Mr. MITCHELL. Through the general revenues, $400 million?

Mr. DIBENEDICTOS. Right. That is the number that Secretary Dennis gave you earlier. That was based on that.

Mr. MITCHELL. Of the $400 million in 1979, $715,000 went to minority business.

Mr. DIBENEDICTOS. That is up to $11 million now. Hopefully, $15 million is projected through the calendar year 1982.

Mr. MITCHELL. How much do you plan to spend in 1982?

Ms. DENNIS. $15 million.

Mr. MITCHELL. No, your total expenditures; your total procurement.

Ms. DENNIS. Oh.

Mr. DIBENEDICTOS. Well, those numbers are fairly consistent; our State budget has increased.

Mr. MITCHELL. Has it stayed at $400 million?

Mr. DIBENEDICTOS. Roughly $400 million; yes. Our State budget has increased over the 3 years on an average rate of about 5 percent a year. We have been below the rate of inflation each year, which meant necessary cuts.

Mr. MITCHELL. Then you are projecting $11 million or close to $15 million out of the $400 million?

Mr. DIBENEDICTOS. Yes, sir.

Mr. MITCHELL. What is that? About 5 percent?

Mr. DIBENEDICTOS. Yes.

Mr. MITCHELL. No; it is not quite 5 percent, is it?

Mr. DIBENEDICTOS. It is a little under 5 percent.

Mr. MITCHELL. Yes; about 3 percent.

Mr. DIBENEDICTOS. We have been able to increase it from $700,000 to $3 million the next year, to $6 million the next year, to $11 million and now $15 million. So, you can see that that is quite a growth rate.

Mr. MITCHELL. Yes; moneywise it is, but not percentagewise.

Mr. DIBENEDICTOS. Well, I think, Congressman, what we have had to do is actually get a directory out with the allowed minority businesses, for all our State agencies to see where the minority businessmen were. The other thing we have done is held seminars and held training for procurement from the department of general services for minority contractors. We are trying to get the system institutionalized, so that the money can go out in an orderly fashion.

Mr. MITCHELL. If you had to give a hard figure, what do you think would represent a fair, just, and equitable percentage of participation for minority businesses?

Ms. DENNIS. I think it is no question that we would like to see that percentage higher than it is now, which is why we have been working very hard on it. The Governor said when he came into office that he wanted to see that figure raised tenfold. We have done that. I would think we would probably like to see another tenfold increase. There is no question that we want to see as much participation by minority contractors as we can obtain.

Mr. MITCHELL. Then, you are saying that in your opinion, roughly 30 percent—that is a tenfold increase above your 3 percent—would be fair, equitable, and just.

Ms. DENNIS. I think so. I think, given the time, we would reach that, too.

Mr. MITCHELL. Thank you very much.

Mr. Staton?

Mr. STATON. Thank you for being here today. I have a couple of questions. One of them that intrigues me about your testimony, and I am particularly interested because of our situation in my home State of West Virginia, and that is, you made a couple of comments in the testimony that you said you have made reforms of unemployment compensation that permit the State to stabilize the fund and reduce Federal penalties. Then further, you have reduced the unemployment compensation rate and kept down burdensome business regulations. If you could please expand on that, I would appreciate it.

Ms. DENNIS. Not being an expert on unemployment compensation, and on the problem, I will try to say it in the layman terms that I understand it.

Over the last decade in Pennsylvania, we went from a tremendous surplus in our unemployment compensation fund to a tremendous deficit. One of the problems was the tremendous interest rate at which we had to pay back to the Federal Government. One of the things we needed to do was to stabilize that repayment plan, because the burden that it placed upon business people was such that with the other high interest rates, many were complaining that that was the straw that was breaking the camel's back.

So, that our effort was to put the businessmen, and particularly the small businessmen, in a position where they paid less toward the unemployment compensation program.

What that required, of course, was some give by the employees and some give by everybody. That was a tough battle. It was a very tough battle, but we did win it and we think that, as a result, we were able to stabilize businesses, particularly small businesses, in Pennsylvania through that struggle. For those that were involved in the struggle, I think they would tell you that it is something that requires tremendous support from the unions. Because it did, you know, make the requirement for collecting unemployment a little bit more stringent. We did get that kind of cooperation in Pennsylvania.

Mr. DiBenedictos. Prior to the passage of that State law in 1980, the State was losing $1 million a day at one point, with the differential between the benefits paid out and the income coming into the unemployment compensation fund.

Mr. Staton. On the enterprise development, I personally am more optimistic than some, perhaps, on this panel about the resurgence of the American economy. I expect small business to play a very important role in that, and that if you take a look at the top 1,000 companies in the country, the Fortune 1,000, if you will, their increase in employment over the last 10 years has been virtually flat. As a matter of fact, their total number of available jobs has. On the other hand, small businesses have created in that same time period something like 3 million new jobs, so, I expect to see a continuing growth in this and venture capital being available as it is, I would see a resurgence of the economy in the small business area.

Now, you may not want to divulge any trade secrets, since I am from a sister State of yours, but what is Pennsylvania doing to attract and make small businesses want to locate in Pennsylvania? Is there a tax moratorium or some sort of this envisioned in your enterprise development?

Ms. Dennis. We already have on the books, what we call LERTA, which is a tax break for businesses.

Mr. Staton. Can you tell me the name of it?

Ms. Dennis. It is called LERTA; it is a tax program.

Mr. Staton. What is the name?

Ms. Dennis. It is called LERTA. Those are the initials for the program. L-E-R-T-A. LERTA.

Mr. Staton. What do the initials stand for?

Ms. Dennis. Well, I really do not know. That is the Department of Commerce's program. But they would know it, if you call them up and ask them what LERTA is. I can tell you a little bit about it.

Mr. Staton. Fine; please do.

Ms. Dennis. That is that it does provide for a tax plan. That is, small businesses can come together in a development or business area and set up a program whereby each of the individual businesses then can benefit somewhat from a tax break, if they agree to do certain things in concert and with the overall businesses in the area. So, that is one of the kinds of tax programs that we think is helpful.

Also, we have a neighborhood assistance act program in Pennsylvania, that we think is important to corporations, because it allows them to provide assistance to community organizations and at the same time, take a tremendous tax break for their own business. So, we think that, in addition to that being an attraction to bring companies, particularly into an enterprise development area, it helps them to look good in their work. We also think that the loss carry forward legislation that was passed in Pennsylvania last year would be very helpful and will be a good attraction.

Finally, we think the Pennsylvania Industrial Development Authority's low-interest loan program, the minority authority board's low-interest loan program, are other attractions that would bring companies to Pennsylvania.

Mr. STATON. Thank you. I have one final question. It has to do with many of our housing projects—you may have run across this problem being a member of the housing authority—which do indeed require and call for set-asides? We have, in one of my rural counties in West Virginia, two such projects underway now, but the problem we are having is that the local contractor, small contractor, is being squeezed out, to a great degree, by the requirements for bonding and so forth. Have you found that the small business surety bonding program that we have has been that helpful in Pennsylvania?

Ms. DENNIS. We have a problem similar to the one you described with our Pennsylvania Housing Agency. What we have been trying to do, though, is to get around that problem with letters of credit where possible, with joint venturing. We particularly have encouraged the joint venturing effort, because we think that that is one of the ways to get the smaller business group involved. We have also encouraged the subcontracting as another way to get the smaller businesses involved, and especially the minority businesses.

Mr. STATON. Yes. Thank you, Mr. Chairman. I have no further questions.

Mr. MITCHELL. Thank you. Maybe we can get back to this, because I am not at all sure that I understood what your direct response was in terms of the surety bond program under SBA, whether that has helped you any.

But let us go to Mr. Weber.

Mr. WEBER. Madam Secretary, I am interested in your small business action center. How do you improve access to that center across the State of Pennsylvania? How do you approach that?

Ms. DENNIS. I am not sure that I understand your question.

Mr. WEBER. Well, in other words, you have——

Ms. DENNIS. How do people know it exists?

Mr. WEBER. That is right, and how do they know how to make use of it?

Ms. DENNIS. Well, we did an extensive mailing and advertisement when the program first was inaugurated, and I am smiling because we were criticized for that extensive advertising and that extensive mailing. However, we did do it, and since that time, we have used a toll free number to keep persons aware of it and able to use it at no cost to them.

Mr. WEBER. Are there any regional offices or district offices, or is it all in Harrisburg?

Ms. DENNIS. It is all in Harrisburg, and maybe Nick DiBenedictos can talk a little bit more about it.

Mr. DIBENEDICTOS. Initially, it was advertised; it was in public service announcements, plus a direct mailing. We have also set up 10 business development centers at universities around the State, through the help of the Small Business Council.

Mr. MITCHELL. May I interrupt you just a minute?

Can you hear him in the back? You can?

No? I think you will have to talk directly into your microphone in order to be heard in the back.

Mr. DIBENEDICTOS. Initially, as a recommendation of the Governor's small business council, the small business action center was developed, and that was in 1980. At that time, we did direct mailings and also did extensive advertising, mainly through public service announcements. We set up a toll free number, and simultaneously, through a small business administration loan or grant, set up these 10 development centers at colleges around the State, which are still being implemented.

We have continued in our industrial advertising campaign, which is in the State budget each year, to target small business in part of our advertising budget in major magazines: Forbes, Time, and so forth; magazines of that sort, and periodicals. Also, in the major papers in our State.

Mr. MITCHELL. Gentlemen, yield to me for just a moment. I hate to interrupt you, but I see we have the Honorable Lucien Blackwell with us who apparently has to leave early; I am sorry that he does. I am grateful that he popped in on us, but he did just leave and I wanted to acknowledge his presence. Thank you.

Mr. WEBER. Does Pennsylvania law take into account the burden, the inordinate burden on small business to fill out the various forms? Do you have a small business paperwork reduction program? Can you tell us about that?

Mr. DIBENEDICTOS. Yes. As part of the small business action center, which was set up also in 1980, that is a place with the toll free number that a small businessman can call and the action center itself then coordinates with all the various departments on what you need, whether it is the labor department or the department of environmental resources or whatever, to find out what has to be done. They have put together an easy to read pamphlet to send out as to what you want to do to get loans, start a business, what kind of rules and regulations the State has. This small business action center in the department of commerce has also become the advocate on the Governor's regulatory reform program for what regulations are burdensome to small business and must be changed, and that is done administratively by each cabinet secretary.

Mr. WEBER. Thank you. Turning to the enterprise zone or enterprise areas, is this legislation that is contemplated or can you put this into effect without new legislation in Pennsylvania?

Ms. DENNIS. We can begin the program without new legislation. We think, though, that eventually there are some aspects of the program, as we get beyond the planning stages, that will require legislation, and we will be working with the general assembly on that. But if the budget is approved as we have requested, come July 1, we can begin the program.

Mr. WEBER. Are you seeking to involve the people of these urban areas in the planning and participation?

Ms. DENNIS. Yes. What will happen is that the local government will be required by us to tell us what areas they would like to have considered for the enterprise development program. Then, as Secretary of the Department, I would review and approve their applications.

Mr. WEBER. What I was getting at is that the grassroots, the people that are living in these areas themselves, are you seeking to win their participation and their cooperation and their acceptance of the program?

Ms. **Dennis**. Yes. Part of the analysis that will be done on the application will include the question of what kind of community support there is for the area to be named an enterprise development area.

Mr. **Weber**. Thank you. Your testimony has been most interesting.

Mr. **Mitchell**. Thank you.

Mr. Smith?

Mr. **Smith**. Thank you, Mr. Chairman.

Ms. Dennis, I have a couple of questions. First, on the enterprise development areas. First of all, I am intrigued with that too, because I have supported the enterprise zones. I think it should be remembered that the Federal enterprise zone act, as embraced by President Reagan and Congressmen Garcia and Jack Kemp, who have been the principal sponsors in Congress, does not just look to create new entrepreneurs within urban depressed areas, but rather it looks also to bring in an outgrowth of new companies saying "Let us start a new company or a new outlet in such and such a city." For instance, in the city of Trenton, which is in my district, and the beauty of the legislation, as conceived—and this can be altered, and have a different ratio—but it provides that at least 50 percent of those who would be employed by that new business that gets the tax breaks would have to be from the affected area. So that the major problem that we face in our urban areas, and that is to say, jobs, would hopefully be alleviated through the Urban Enterprise Zones Act.

I think that, perhaps, there is a way that your initiative and ours could be working in conjunction, because the way I see yours, from what I am reading, you are looking to target State funds in terms of loans and that would be the access to capital, whereas the Federal response is to provide tax breaks and a moratorium in taxes for a certain time, as an incentive to get those businesses there, so I see a good partnership created. Perhaps you would want to comment on that.

Ms. **Dennis**. Oh, yes. We anticipate that whatever number of enterprise development areas, or enterprise zones that Pennsylvania receives within its borders, that we, in State government, will work with those zones to provide whatever financial support we can. Additionally, because we know that the need is very great in our State, we are targeting our State program to cover a number of other communities. Particularly, we think that there are a number of small communities in Pennsylvania that have what they call the hidden poverty and the hidden problems, and we seek to continue to assist them. But there is no question that we will be working with the Federal enterprise zone program as it is finally finalized.

Mr. **Smith**. I point out for my colleagues and for the record that I think we should take back to our own States this concept, so that the two, both the State initiative, as well as the Federal, can work in conjunction with each other, and I would like to be in touch with you following the meeting, to get the details of how your plan works.

A second question: In talking about the 13,000 phone calls that have come into the small business action center, could you give an example of the kinds of calls that come in? I know that our case work in my four constituency outreach centers, when we deal with social security, we usually get four or five of the same questions over and over again. Veterans, the same thing: four or five of the same questions; perhaps you can shed some light on that.

Ms. **Dennis**. Yes; I was at a Small Business Council meeting in which that question was asked of the director of the small business action center, and she said that, for the most part, most of the calls are from people starting up new businesses. They want to know precisely what their responsibilities will be, and who they must relate to in each State agency that they are going to be doing business with, kind of what are the first steps that they will have to take in Pennsylvania to put their businesses on line. They were surprised that they do not receive as many calls from those who are already in business as they would like. So, what they are going to be doing is trying to target some ways to help them a little bit more, but it is very, very helpful, it seems, to the people starting up in business, the new business people in the State.

Mr. **Smith**. How about the people on the other side of the line? Are most of them from a small business background?

Ms. **Dennis**. Yes. There is no question that most of the people that call are from small businesses.

Mr. **Smith**. I mean those who are answering the calls.

Ms. **Dennis**. Oh, I do not know about the staff. Nick, can you tell them the background of the staff?

Mr. **DiBenedictos**. It is not a large staff; we are talking about three or four people. What we try to do is, most of these people are expeditors to get the answers. If it is a labor issue, the Labor Department expert would answer it through this action center. What we are trying to do is save all the excess phone calling that one person would have to do, basically, and giving them a toll free number so that the initiative is there and that it will not cost them any money to call Harrisburg, basically. We will give them the answer.

Mr. **Smith**. Do you get any questions about the SBA and how that interfaces with the State?

Mr. **DiBenedictos**. We do in many cases. We have all the brochures and pamphlets.

Mr. **Smith**. So you can refer to them and get the answers?

Mr. **DiBenedictos**. Right, and then we also refer them to the appropriate regional office.

The understanding of the Federal, State, and local interaction is not always as clear with the small businessman that you can anticipate as with the large industry or large business. That explanation, of course, has to be given as to where the State fits the role and where the local and where the Federal comes in.

Mr. **Smith**. Has any publication come out of this, like 10 most asked questions, or anything like that?

Mr. **DiBenedictos**. I did not bring it with us, but we have some.

Ms. **Dennis**. Yes; we have several brochures from that center that you would probably like to see.

Mr. **Smith**. I would like to have a copy of that. Perhaps the other members would want to see that also.

Mr. **DiBenedictos**. Sure.

Mr. **Mitchell**. Gentlemen, yield. I think it would be appropriate to make that available to at least all the members of the committee here.

Mr. **Smith**. One last question: You refer, in the office of procurement information, to the fact that some businesses have access to advance information. I was wondering if that is small businesses that have access to that information?

Ms. **Dennis**. Yes; that is the main focus and the main point of this statement. It is that it gives the small businesses an opportunity to consider the kind of work that is coming up and their capability to bid for the projects.

Mr. **Smith**. How is that made available to them? A mailing or what?

Ms. **Dennis**. Well, by telephone call or by a mailing or by the seminars and workshops that Nick mentioned earlier. We have had a number of them. As a matter of fact, I think there is going to be one this month that is going to be focusing on the small business and minority businesses, and the idea is to bring the people together and tell them what the State is doing, what is available to them, and to provide them with this kind of information.

Mr. **Smith**. I guess the question I am getting to is this: Is it minority business only that get the advance information?

Ms. **Dennis**. No. It is the combination of small business and minority.

Mr. **Smith**. How does one get on the list?

Ms. **Dennis**. On the mailing list?

Mr. **Smith**. Yes.

Ms. **Dennis**. Simply by calling the office.

Mr. **Smith**. Thank you very much for your questions, or your answers, I should say.

Mr. **Mitchell**. Congressman Gray?

Ms. **Dennis**. I guess I probably did leave some questions.

Mr. **Gray**. Thank you, Mr. Chairman.

Secretary Dennis, I am interested in the State's enterprise zone program. Could you just explain very briefly how does it work?

Ms. **Dennis**. Yes. The idea will be that we will name between 20 and 30 communities in the coming year in Pennsylvania as enterprise development areas. That process will entail the local government submitting applications to my department, defining why an area should be considered and what the support is for that area being considered. We will then determine whether it fits the goals and objectives of the program. We will designate the area and then, the initial funding that will be available in the first year will be primarily for planning for the enterprise development concept.

Our idea with the enterprise development area, and the reason we are calling it enterprise development is because we are looking at it as a community conservation and economic development idea. So that we would urge an enterprise area to consider its housing concerns, its business concerns, and all of the other activities that go on. We certainly want to see city services improved to the area and generally, just kind of an upgrading of the community.

Mr. **Gray**. What specifically will the State be offering to those enterprise zones, in terms of incentives?

Ms. **Dennis**. The first thing that we would be offering is planning funds. The second thing that we would be offering from my department alone would be the availability of our funds for our other programs. We have a community services administration block grant. We have a small communities block grant for those communities that qualify. We have the neighborhood assistance act program. We have two small programs called CASH and TEAM grants program, which are for low-income communities. We would then seek to use the services of the other State agencies, such as the commerce department and transportation department, particularly, and other grant funds from the department of labor and industry.

So we think that by defining the area and then pooling all of the State resources toward that area, that we could come up with quite a fine package for the community.

Mr. **Gray**. Thank you, Madam Secretary.

Ms. **Dennis**. Thank you.

Mr. **Mitchell**. Thank you. I have three more questions, which I will give to you and ask that you respond in writing if you will.

Ms. **Dennis**. Yes.

Mr. **Mitchell**. I would appreciate it, if other members have additional questions, they would submit them to you. I would appreciate a prompt reply.

Ms. **Dennis**. Sure.

Mr. **Mitchell**. I would love to see a breakdown of the small business failure rate in the State of Pennsylvania for the years 1979, 1980, and 1981, and if you can break that down by majority and minority.

The second, I would like a response to whether or not the surety bond program of the Small Business Administration has been helpful or not in your State's efforts on behalf of small business.

Ms. **Dennis**. Thank you, Mr. Chairman. I guess you realize that I did not have the answer to that. Thank you for letting me send it back in writing.

Mr. **Mitchell**. The third is, you have one single document—maybe one voluminous document—but some document that would be comprehensive to show all the efforts that the State is now making on behalf of small and minority business. I would appreciate it if that could be made available to the members of the committee.

Ms. **Dennis**. Fine. Thank you very much, Mr. Chairman.

Mr. **Mitchell**. Thank you very much for taking the time to be with us.

Ms. **Dennis**. Thank you. Thank you all very much.

[Ms. Dennis' prepared statement follows:]

PREPARED STATEMENT OF SHIRLEY M. DENNIS, SECRETARY, PENNSYLVANIA DEPARTMENT OF COMMUNITY AFFAIRS

Mr. Chairman, members of the committee, ladies and gentlemen, my name is Shirley Dennis and I am Secretary of the Department of Community Affairs.

Thank you very much for this opportunity to be here today to discuss small business, and what Pennsylvania is doing to assist and promote small business development. As a board member of the Pennsylvania Industrial Development Authority and the Pennsylvania Minority Business Development Authority; as chairperson of the Pennsylvania housing finance agency; and as a member of Governor Dick Thornburgh's small business council, I am acutely aware of the needs of small businesses. That's why we in DCA are pursuing efforts to aid those businesses. We feel they are an integral part of community conservation and preservation—the improvement of which is DCA's mission.

Specifically, DCA has several avenues that will assist small businesses in Pennsylvania: (1) Enterprise development areas—to target funding to selected, depressed communities that, in turn, will aid small business and minority business growth and development. (2) Community services block grant—with a focus on the training component to assist small businesses get started. (3) On the horizon is the small communities block grant—for downtown and community revitalization efforts that undoubtedly will include small businesses.

DCA is not alone in those efforts. In fact, there is a concerted administration-wide effort not only to promote and enhance the climate for small business development, but to further minority small businesses as well. Let me cite a few examples:

One of the first actions Governor Thornburgh took after assuming office in 1979 was to establish the small business council—a 23-member group drawn from the small business and academic communities, with additional members from the cabinet and the general assembly. This group was charged with the task of clearly identifying the problems facing small business and making recommendations to the Governor based on those findings. We learned a lot. And we've made changes.

1. We have made reforms in unemployment compensation that permit the State to stabilize the fund and reduce Federal penalties.
2. We have reduced the unemployment compensation rate and cut down on burdensome business regulations.
3. We have restructured PIDA—the Pennsylvania Industrial Development Authority—to permit that program to participate to a greater degree in small business development. For instance, since that restructuring became effective in June 1980, 39.5 percent of all PIDA loans have gone to small businesses—almost $21 million.
4. We have set up the small business action center—housed in the Department of Commerce. Established by the Governor in May 1980, the center has handled over 13,000 calls from small businesspersons with questions about forms and regulations. This has effectively cut "red tape," since it has been estimated that one call to the action center can save 17 calls to other State agencies.
5. The Commerce Department partially funds small business development centers located at 10 universities throughout the State. Those centers can help small businesses with marketing and financial planning.
6. Commerce also underwent a major reorganization in 1980 that resulted in the creation of an office of small business, which oversees and coordinates all of our small business-related activities.
7. Another important office in commerce is the Pennsylvania minority business development authority, which makes loans or loan guarantees to viable enterprises owned and operated by minorities—most of which are small businesses. PMBDA also is working to encourage the formation and use of special investment companies, termed "MESBICS."
8. Commerce, in addition, has the State Office of Minority Business Enterprise, which solicits participation by minority contractors in state-related work.
9. As you may already know, Pennsylvania has a new travel advertising campaign designed to promote tourism in the Commonwealth. That campaign has a new emphasis on the travel industry—the source of almost 190,000 jobs in Pennsylvania, and an industry which is predominately made up of small businesses.
11. Pennsylvania also has a new advertising campaign designed to promote overall business development—a focus of which is on small business development.
12. We have an office of procurement information—a central one-stop office for vendors and contractors who want to do business with the State. The office gives businesses—many of which are small—advance notice of available State work prior to that work being put out publicly for bids.

Those are just a few of the things Pennsylvania has done to encourage growth and development of small businesses.

I believe that we have made a number of significant strides toward addressing the problems of small business and heightening the recognition—both in and out of State government—of the vital importance of the small business sector of the economy. If you have any further questions, I'll be happy to try and answer them.

Thank you.

Mr. MITCHELL. We will now call on our next witness. One of the problems about having field hearings is that the persons who are in attendance are all so busy. They have a myriad of things to do. Many small businessmen come, and they cannot afford to be away from their place of business all day long, but I would urge you, if you possibly can, to stay with us. We are going to try to hear from each witness that we have listed.

Our next scheduled witness is Mr. Allen Brown, who was supposed to be representing the mayor. Is Mr. Brown here? Is the mayor here? I do not see Bill Green.

All right. If not, then we will go to our next witness.

Oh, Mr. Brown is here? No, Mr. McCloskey.

Thank you very much for being here. Would you give us your full name and title, please?

Mr. McCloskey. Mr. Chairman, I am Jim McCloskey. I am the economist for the city of Philadelphia.

Mr. Mitchell. M-c-C-l-o-s-k-e-y?

Mr. McCloskey. Right.

Mr. Mitchell. Yes, sir. Do you have a prepared statement?

Mr. McCloskey. The statement is being prepared by Allen Brown at this point, and you will hopefully have a copy by this afternoon. I am representing Allen Brown this morning; he got tied up in another meeting, and I work with Allen on the Small Business Council.

TESTIMONY OF JIM McCLOSKEY, ECONOMIST, CITY OF PHILADELPHIA, REPRESENTING ALLEN BROWN AND MAYOR WILLIAM GREEN

Mr. McCloskey. I just wanted to make the statement that I would like to underline everything that was said in terms of loss of business and jobs in the city of Philadelphia. Our efforts right now are tied to the Small Business Council, which is a rather unique undertaking. We were one of the first cities to put the package together which relates to both the small business community and the area banks and other small business agencies. Right now, we are looking at the number that is really scary. We are looking at unemployment in the city of Philadelphia and you will hear quotes of anywhere from 11 to 14 percent, but I think the estimates are at best conservative. I think you will probably find that it is closer to 18 and 19 percent unemployment in the city of Philadelphia, because if you look at the trend of business in the last 5 years in the city, it is not a question of redistribution of income, it is not a question of the firms going from the city of Philadelphia to the Southwest, to a Houston or a Phoenix. It is now a situation of foreclosure. So the Nation is not gaining anything by it. It is a firm that is boarding up their building and the people that are here, it is not a question of mobility. They are not going anyplace; they are staying here.

It is that great glut that does not appear in any fashion in any unemployment statistic that we are concerned with. Again, that does not show up in numbers, so that is why that figure is, again, not a question of just those that are unemployed. It is a question of welfare recipients that had a job 6 and 7 years ago, but because of the displacement of the industry itself, whether it is in the textile or the apparel component, that group is no longer employable because the industry has closed up shop; those people are still here.

That is why we have to sit down and—since we are not a Fortune 500 city—have to be very concerned with a statistic which, again, does bother us and it does not show up in unemployment. Since we are not the Fortune 500, we have to look to the small business sector as our growth area, and we have heard the statistic as high as 85 percent of all jobs provided in the last couple of years have been provided by small business. I think you are looking at a figure closer to 95 percent in the city of Philadelphia, and that is the only growth sector in Philadelphia.

In terms of growth in Philadelphia, we are also looking at firms that are not even, if you want to use the Small Business Council's figure of under 500, I think we are looking at firms in Philadelphia employing under 50. That group does not have access to capital markets. It does not have access to any financial market. So we have got to be probably a little more creative than most other cities. It is because of that we are calling on not just the State, but the commitment from Washington to look very closely at what we consider not an uncomfortable situation, but just about a catastrophe.

Mr. MITCHELL. Thank you. Is there a city ordinance mandating the involvement of small and minority businesses in city construction?

Mr. MCCLOSKEY. Yes, sir. That has been in construction for the last 6 months.

Mr. MITCHELL. There is such an ordinance?

Mr. MCCLOSKEY. There is an ordinance that is about to be proposed through the small business council, which is an advisory committee to the mayor.

Mr. MITCHELL. But there is not one as of this time?

Mr. MCCLOSKEY. No, sir, there is not.

Mr. MITCHELL. All right. We have a strange paradoxical situation. In most cities there is a great deal of construction going on. At the same time, you have simply devastating rates of unemployment. As I moved briefly through the city of Philadelphia, where I lived for a couple of years, many years ago, I saw a great deal of construction activity. I see a new hotel, new motels being put up. To what extent is there a utilization of minority businesses in the city's construction effort?

Mr. MCCLOSKEY. Sir, there has been a great deal of construction. I would like to say that it is going to continue, but I think because of financing costs and everything else that has stabilized in the last year.

In terms of participation for minorities, we are trying to voice that again through the Small Business Council, which has, to date, been probably less than represented.

Mr. MITCHELL. Some years ago I remember the famous Philadelphia plan in terms of the employment, and I think the minorities in construction. That came about through a great deal of strife and turmoil. While I am appreciative of the employment opportunities, I think it is imperative that we make an effort to insure the participation of minority contractors, the electricians, and so forth, in any construction that is done.

Now I have heard a statistic, and I would ask you to either say "yes" or "no" as to the accuracy of the statistic that there is less than 1-percent involvement of minority businesses in the construction that took place last year. Is that correct?

Mr. McCloskey. I do not have a statistic to say anything other than that is probably fact, because we are looking at a very capital-intensive sector. I do not think that the small firms, of any kind, and probably particularly minority are represented in the major construction you saw.

Mr. Mitchell. I hope you are not happy with that.

Mr. McCloskey. No, I am totally disenfranchised. I would like to see more or all of the Philadelphia firms participating in the kind of construction we are looking at, rather than bringing it from New York—I have nothing against New York—or West Virginia, or some other place.

Mr. Mitchell. Not West Virginia. No; maybe Virginia or New York.

Mr. McCloskey. No cheap shots intended. I just wanted to give an example.

Mr. Mitchell. Has the city any effort underway to enhance the participation of minority contractors in the construction efforts?

Mr. McCloskey. Sir, again, falling back on the small business council, we do have significant participation from the minority sector on that council. That council, in year two, is now looking at itself, not as an advisory committee, but as a committee that is issuing ultimatums in terms of public policymaking. Also represented again are those minority participants that are getting at that procurement level. And we have a gentleman under the managing director, a Dr. Robinson, who is overseeing that entire campaign, and has committed all his assets to accomplishing just that.

Mr. Mitchell. Well, I must say that I find it a little strange that a progressive city like Philadelphia is just beginning to address this problem. I know I have been in Congress for 10 or 11 years. There has been a great deal of emphasis on the involvement of minority business. Certainly, you cannot have it both ways. The Federal Government and the State governments cannot go about the business of eliminating human services programs or reducing them significantly without having a viable alternative as a mechanism to make that alternative work.

With all due respect, Mr. McCloskey, I am really a little disturbed as to why this was not done 10 years before this, why some plan was not worked out before for the involvement of the minorities in the city construction efforts, or in general city procurement. Do you have any reason why this was not done?

Mr. McCloskey. Sir, I can offer no explanation. Again, it is not a question of looking back; it is a question of seizing the opportunity at this point. I think they are finally there, and we are looking at the mistakes made in the last 10 years.

Mr. Mitchell. Believe me, I do not mean to deprecate what you are doing there, but the present is also the past. You say "It is not a matter of just looking back." I just think to myself, had we done this 10 years ago, where might we be in terms of the viability of minority businesses in this city?

Mr. McCloskey. You are perfectly right, sir.

Mr. Mitchell. Mr. Staton?

Mr. **Staton**. Thank you, Mr. McCloskey. I would like to ask two or three questions here, if I may. One relates to the use of industrial revenue bonds or, perhaps, a movement of commercial revenue bonds for the smaller areas, smaller business. Have those been helpful and have they been used in Philadelphia to any great degree?

Mr. **McCloskey**. Yes, sir, they have. We are also working very closely with an agency, the Philadelphia Industrial Development Corp., which is of national reputation. The industrial revenue bonds have provided a source of funding and, again, where there was not any. Now, we do not establish monetary policy here, but we are forced to go into our pockets and look for some other creative mechanism that is going to attract other private participation. The industrial revenue bonds have been just such a facility and we have been using the Industrial Development Corp. to articulate that whole campaign and work with the area banks. Gerard and P and B and the others have been strong participants in helping us put that package together.

But, yes, the industrial revenue bonds have been used very effectively in our area.

Mr. **Staton**. We have had a few problems in my State, where large national companies, for example K Mart or McDonald's, are the prime users. The industrial revenue bond financing plan they have has not, in fact, created new jobs, but has simply served to replace existing enterprises. Let us say you have a home-owned Ben Franklin store that is competing with an industrial revenue bond financed K Mart. The question that has been frequently raised:

> Is this a proper role for Government to have financed or to some degree underwritten the interest rate on the bond financing for those K Mart or McDonald's stores, when they are, indeed, in competition with the previously established businesses?

Have you found this to be a problem?

Mr. **McCloskey**. Yes, sir, it is a problem. I think the enterprise zone concept addresses the same thing. Where do you find a particular area, and how do you figure out a tax incentive package that is not going to be perceived as at least a disincentive for some other component? But I think that, mandated by a lot of things in the economy over the last couple of years, that stabilization is not such an unattractive goal sometimes. We try to, again, that is the purpose of the small business council in the city, because we are not a Fortune 500 city. Like I said, we are very sensitive to their needs, and they do have a strong position in terms of where the city is going. We do voice their opinions and we are not concerned with just the major labor intensive component that may come in here. We are very sensitive to the needs of the small business group. We try to spread that package and, again, put a package, whether it is industrial revenue bonds or other financing that might be available from the Government, also available for the small business components. That we do not violate that other sector. We try, again, to balance it as much as we can, but understandably, it is tough to be all things to all people.

Mr. **Staton**. I understand that. The other question I have might require some research on your part. The tax program we passed this last year in Congress called for a 25-percent tax reduction across the board for individual rates. Would you have any estimate of how many small business owners or small businesses in the city of Philadelphia pay their tax on an individual rate basis? Do you have any idea?

Mr. McCloskey. On an individual rate basis?

Mr. Staton. Yes.

Mr. McCloskey. We are just talking about the individual side of it; we are not talking the tax incentive.

Mr. Staton. Well, I am asking, how many business owners pay their tax on an individual basis?

Mr. McCloskey. I could not throw an estimate. We have 28,000 small businesses in the city of Philadelphia. I really do not know.

Mr. Staton. I would be curious to know that. If you could put something down on paper and send it to us, I would appreciate that ball park figure more than anything else. I do not need the exact figures.

Mr. McCloskey. Mr. Staton, I certainly will make sure you get it.

Mr. Staton. Just out of curiosity, do you see the other areas of the income tax reduction plan, such as reduced rates for individuals, as well as increased depreciation schedules, or faster writeoffs, being of assistance to you here?

Mr. McCloskey. I would like to get a little more excited about it, but I do not think we can. Tax incentives, like anything else, are a good thing as long as you have some sort of a profit to write it off against. But when you have been struggling as most of the cities have, and in the northeast corner and particularly Philadelphia, I do not think we have that kind of profitability in the package that we can really utilize those incentives.

Also, in terms of the individual tax cut, I do not think it is going to be perceived as such a really fantastic thing for the area businesses, because it is more of a catchup thing and going to pay probably last year's bills that are now running their third notice for most of the companies and individuals in the city.

We do not have the luxury of jumping to those tax incentives, nor does the city, because we do not have any great new areas open for our expansion. We have to look at other areas that are already developed. We are forced to compete with a lot of areas that can offer a new package, and they are not talking about gutting an old building or new development; that is their only concern. They have got the ground and they can go with a new development; we cannot. We have got to look at older facilities and those tax packages, against older facilities, do not really balance out. We have reservations about all that.

Mr. Staton. I understand what you are saying. Then you feel that the tax reduction incentives will be more helpful in the future, after the businesses have been able to attract some capital, and to begin to get themselves on a firm footing, that these will be, indeed, incentives in the future. But your bigger problem now is that of simply attracting the necessary capital to make those purchases to begin with.

Mr. McCloskey. In terms of small business, yes. But again, I just hope we can weather the storm. What big business is left does not seize the opportunity to go to another area, that they are looking to new development and not refurbishing. Again, wherever, be it a Houston or a Phoenix, I would like to think we can hold onto them so we can take advantage of those tax incentives 2 years down the road.

Mr. STATON. Thank you very much. Thank you, Mr. Chairman.

Mr. MITCHELL. Yes; Mr. Weber?

Mr. WEBER. Mr. McCloskey, I have been intrigued by your statement that Philadelphia is not a Fortune 500 city. I think it is a great city. It is really almost my first trip today to Philadelphia. Back in Toledo, we have the world headquarters of seven Fortune 500 companies. But what do you mean when you use the word or the expression that Philadelphia is not a Fortune 500 city. I do not understand.

Mr. MCCLOSKEY. In terms of a Fortune 500 city, that is not a disclaimer. That is the silver lining on the cloud, as it were, diversified enough that we can weather a recession as we have in the past, but in terms of that major labor intensive component, by way of firms that are the Fortune 500's, we do not have that many that are headquartered here. Because of that, our sensitivities fall in the area of small business. You know, we are not looking at the Exxon's or the Texaco's or anyone else. We are looking at a component that is very much affected by the kind of interest rates we are looking at, and by the kind of tax package we are looking at. That is where our commitment is; not as a rhetoric. That is a question of, we know where our bottom line is coming from, and we know what the employment opportunities are going to be. So, that was the only reason for that explanation.

Mr. WEBER. So you are placing heavy emphasis on the small business community to provide, and to take up the unemployment slack in Philadelphia. Is that what you are saying?

Mr. MCCLOSKEY. We know that is our growth sector. Again, that is why in this administration we have in the last 2 years. We were the first city to have a small business council and we have a lot of cities that have duplicated our efforts in the last 2 years.

Mr. WEBER. I was interested in something else that you were talking about. The high unemployment trend in Philadelphia, I believe, over the last 4 or 5 years. Is this a trend that began to develop that long ago?

Mr. MCCLOSKEY. Well, the trend started 10 years ago. It started 10 years ago, when we were looking at tax moratoriums offered throughout the country that we were forced to compete with. We were an older urban area, much like Baltimore, New York, Detroit, and Los Angeles. It seemed there were a great number of incentives, federally mandated, to a lot of other areas throughout the country to attract businesses: moratoriums of new development, and opportunities to bring in additional jobs. That is understandable; they were the areas of growth, particularly the Southwest.

So, at that point, we had a lot of firms that might have considered Philadelphia as a location, but you know, you still deal with the bottom line, and it was very tough competing with a lot of them, or to continue the expansion we had up until the early seventies. So that is when the decline started. We have offered a lot of programs along the way to hope that we could stabilize that migration, but a lot of other problems developed along the way, some of which were international in terms of fair trade adjustments. A lot of jobs were lost there in terms of technological obsolescence, and a lot of other areas. We are doing our best to hold our own. So the expansion or the migration did not start 5 years ago. It was more like 10 years ago.

What we have hoped to do in the last 2 years, and looking at the next 24 months and I think that is the benefit of a long term forecast; that is as far as we can go. Anyone who can go further than that, I would like to know who they are; but the next 24 months we would like to certainly hold our own, and let that growth area, namely the small business component within the city, know that is where our commitment is, and we are going to just pull together whatever assets we can draw from Washington and from the State to stem that migration, and to look to the other side. To say that we are going to turn it around overnight, I do not think is either fair or reasonable.

Mr. **Weber**. I think your testimony is very interesting in that regard, because with the problems that are facing the country today, and the unemployment in the area, for us to be reminded that it is not something that just suddenly occurred, at least not in Philadelphia, but it is something that had its origins, I guess, as you say, going back 10 years.

Well, thank you very much, Mr. McCloskey.

Mr. **Mitchell**. Mr. Smith?

Mr. **Smith**. Mr. Chairman, thank you.

Mr. McCloskey, a couple of things. You mentioned that there are 28,000 small businesses in the city of Philadelphia. How many of those would you say are sole proprietorships?

Mr. **McCloskey**. Sole proprietorships? It would strictly be ball park, but I think we are talking 70 percent of the 28,000.

Mr. **Smith**. OK. I would just like to point out for the record and I think it is important that we emphasize this, during the debate on the tax cuts, the 25 percent across the board personal income tax rate reductions that were provided for through the program, the Reagan program, which I voted for. I believe many members here voted for it. Nationwide, 75 percent of all small businesses are sole proprietorships, and here in the city of Philadelphia, some 70 percent are. What we did and I think this has not been brought out enough, we provided a tax deduction or a tax break, I should say, for small businesses to a very large degree, and it has been largely not unnoticed. I believe it should be noticed and it should be emphasized that they have been given a very real shot in the arm through that tax deduction.

This is more of a question. On the accelerated cost recovery that was provided, also, in the President's program, not only are new business costs going to be written off in a faster way, but new equipment could also be written off. I know in the city of Trenton and many other areas in New Jersey, we have a problem with old factories competing with newer factories, internationally, as well as down in the southern part of the country. Many of us from the Northeast believe that this will help to provide for an updating program, a retooling program for the United States Steel facility in Trenton, and for the G.M. plant, which is also in Trenton.

So could you comment on that? I think too much or too often we put an emphasis on the fact that some businesses may move south because they can writeoff their buildings faster, but I think it also cuts the other way, when you can put in new plant equipment, and write that off faster. It could also help the Northeast; perhaps you could comment.

Mr. McCLOSKEY. I think plant and equipment will have some impact, obviously, but I am not going to say, again, that it is going to turn the situation around. How much of the budget does plant and equipment represent? We have other problems, again: Labor, energy costs, all the way through. That is a total package. Again, any improvement is certainly a step in the right direction.

We are not looking at how we can increase revenue by way of, whether it be the city, the State or the Federal Government any more. We are trying to adjust the other problem and be sensitive to business itself, by looking at the expenditure side of the house, as does business every day. So I think that any improvement—I do not want to short circuit—but I do not think that that in itself is going to be the biggest turn around. I think we are back to the old problem. You can keep talking about other areas of improvement, but it is down to financing. Where do you get financing? That used to be the luxury of a 3- and 5-year run we are looking at in terms of expansion. The problem you are bringing up happens to deal with 3 and 5 years.

Mr. SMITH. Right.

Mr. McCLOSKEY. A lot of the businesses, particularly those, I submit, in the sole proprietor area, do not look any further than I would say the next quarter. That next quarter is not tied to something called long-term expansion or capital improvements; it is called working capital, and that is our problem, the working capital. It is a question of making the next paycheck for a lot of firms.

If your loan was tied to prime, and you got that package 3 years ago and it might have been a prime at 11 percent and prime plus 3 was your loan rate of 14, what would happen? Assuming those firms are still in business when it was at 22, it is down very low right now, but again, that is a very volatile component. Now, what they are doing, rather than seizing those other opportunities, is putting whatever cash they can in the bank, or under the bed, so they can make it through that working capital crisis, in the absence of any other financing. That is our problem.

Mr. SMITH. Well, the ACR program, obviously, is targeted more toward the bigger businesses.

Mr. McCLOSKEY. Sure.

Mr. SMITH. Without a doubt on that.

What about an energy tax credit? Because that is one of the major problems we face in the Northeast. Would you see something like that, a package on the Federal and perhaps even on the State level as being advantageous, and if so, how much?

Mr. McCLOSKEY. Yes. Again, in terms of percentages, we might be talking 5 or 6 percent. In terms of perception, that is all I can deal with right now. I put that on top of your 4 and 5 percent with the other package of the ACRS. Financing is 60 to 70 percent of the problem. And again, we can address the other issues—if we have the luxury of being able to address the other issues—if we get through the financing crisis, but it is going to be a tough 1982; it really is.

I think those other ACRS packages, we are going to look to the second or third year of, assuming we make it through the first year.

Mr. **Smith**. Thank you very much.

Mr. **Mitchell**. Just one quick question before I call on Congressman Gray for questioning.

I, too, was impressed by your testimony with regard to when the unemployment rate started to rise in this city. The same thing happened in Baltimore and other large cities, but do you know what the unemployment rate was for 1980 for the city of Philadelphia?

Mr. **McCloskey**. The quoted rate, sir?

Mr. **Mitchell**. Yes.

Mr. **McCloskey**. It was about 8.5.

Mr. **Mitchell**. 8.5 in 1980. What about 1981?

Mr. **McCloskey**. 1981, it is about 9.2.

Mr. **Mitchell**. 9.2. So far in 1982 what is the unemployment rate?

Mr. **McCloskey**. Neither seasonally adjusted or anything else?

Mr. **Mitchell**. No, just flat.

Mr. **McCloskey**. About 9.8 to 10.2. If you want to put a flat 10 in there, take it.

Mr. **Mitchell**. So we have seen an increase.

Mr. **McCloskey**. That is the quoted rate, sir.

Mr. **Mitchell**. All right; we have seen an increase in the last 3 years of at least 1 percent or better.

Mr. **McCloskey**. At least; yes.

Mr. **Mitchell**. Thank you.

Mr. **McCloskey**. Now, the problem there, sir, if I can for a second——

Mr. **Mitchell**. Sure.

Mr. **McCloskey**. That happens to be a city. That is not a city figure. That is the SMSA. That is the Philadelphia area.

Mr. **Mitchell**. If you looked just at Philadelphia, without the SMSA, you would probably be significantly higher than that, would you not?

Mr. **McCloskey**. A very conservative estimate would fall in the area of 14 percent.

Mr. **Mitchell**. Fourteen percent. All right. I assume that the increases that you delineated for 1980, 1981, and 1982 SMSA, if we looked at just the city, would I be right in assuming that there has been an even more substantial increase from 1981 to 1982 in the unemployment rate?

Mr. **McCloskey**. Yes, sir, I would submit that.

Mr. **Mitchell**. Thank you.

Congressman Gray?

Mr. **Gray**. Thank you, Mr. Chairman.

Mr. McCloskey, I would like to continue that line of questioning. I thought I heard you earlier testify in your opening statement that unemployment in the city of Philadelphia, conservatively, was 14 percent and that it might be as much as 18 percent in the city of Philadelphia. Is that correct?

Mr. McCloskey. Yes, sir, and I also said that 14 was the quoted rate.

Mr. Gray. That the 14 is the quoted rate, but it might be as high as 18 percent, and that is as of March 1982, and in terms of the city of Philadelphia for 1980, I believe the Bureau of Labor Statistics quotes a figure of 12.3 percent. Is that not correct?

Mr. McCloskey. Yes, sir, it is.

Mr. Gray. So there has been a very significant increase in unemployment in the city of Philadelphia.

Mr. McCloskey. Yes, sir.

Mr. Gray. Also, I think that if that 18-percent unemployment for adults is accurate as a rough estimate, then would you probably say that, based upon the national statistics where traditionally we find a trend of twice that amount for minorities, that unemployment in the black community and the minority community in Philadelphia, perhaps would be well over 30 percent?

Mr. McCloskey. We are talking about the black adult population?

Mr. Gray. The black adult population.

Mr. McCloskey. I would say a figure of 25 percent.

Mr. Gray. A figure of 25 percent would be about the black adult unemployment in the city of Philadelphia?

Mr. McCloskey. Again, the only qualification made there is one of collection. The unemployment statistic itself is compiled based on those that are actively seeking employment.

Mr. Gray. Right. Let me ask you what is your estimate of the impact of the tax program that was passed last year by the Congress on small and minority businesses, as you know them to exist and do business in the city of Philadelphia? Will that provide a significant amount of help for recovery and revitalization?

Mr. McCloskey. Sir, I think that the perception was a good one; I think it is a step in the right direction. But in terms of impact, immediate impact on an older urban area with smaller firms, with working capital problems, there will be a very minimal effect.

Mr. Gray. Let me just ask one more question and then I will yield to my colleague.

What kind of tax package would be necessary to have a significant impact on small and minority businesses in urban areas such as Philadelphia, located in the Northeast and Midwest? Since you do not think that the one that was passed by Congress last year will have a significant impact on revitalization, what corrections or additives would you suggest?

Mr. McCloskey. I do not think the package as conceived will have a great impact on revitalization. It will have a great impact on new development. We are dealing with a situation where there is only so much space in a fully developed area. We have to look at revitalization as our hope of improving the economy, with possibly tax credits for new employment, or adding to employment, that is tax credits tied to an actual unemployment rate, and an expansion of the enterprise zone, with financing available for areas that are considered blighted. I think that in addressing that, we will have the kind of imput that major, older cities are looking for in that tax package. As it stands now, I do not see any great opportunity for a city like Philadelphia or Baltimore, short of possibly the enterprise zone.

Mr. **Gray**. So, basically, you do not see any tremendous effect of the tax package passed by Congress upon small businesses, let us say, in the city like Philadelphia.

Mr. **McCloskey**. Case by case, maybe different; but across the board, no.

Mr. **Gray**. Across the board.

Mr. **McCloskey**. No.

Mr. **Gray**. I yield to my colleague.

Mr. **Smith**. I think a point has been overlooked here, and that is, that without the tax package, would you say that these small businesses in the city of Philadelphia would be worse off? I point out again that 70 percent at least, and you mentioned 75 percent on the national average, and 70 percent here in the city of Philadelphia, are sole proprietorships. They are the ones who are going to reap the benefits of that 25 percent across-the-board cut in personal income taxes. In a way, we know that this tax rate reduction is just keeping pace with what inflation has done to those wage earners.

I would also point out for my colleague, for those here, and for the record that since 1971, taxes on the personal level have gone up 249 percent. What we tried to do by lowering the actual rates of taxation, was to provide equity, to provide a lowering of those rates to provide for incentives so that people will get more of a reward for their work.

I guess the question, again, is, would we be worse off without it.

Mr. **McCloskey**. I think, as I said earlier, I think it is a step in the right direction. In terms of the mix, it could, I think, be conceived a little more appropriately to the older urban areas. In terms of the package as it now stands, yes, anything would be better than a continuation of what we have seen in terms of the kind of Federal mandate of taxation that we have seen over the last 10 to 20 years particularly in our area. Again, yes, of course, anything would be perceived as a step in that right direction.

Mr. **Mitchell**. But it still is not the panacea.

Mr. **McCloskey**. It is not. When you are dealing with a 1½- and 2-cent profitability, like I said, anything is a step in the right direction, but not one-tenth of 1 percent.

Mr. **Gray**. Let me reclaim my time, if I might.

I think if you look and just give me a response to this, because I think you have made it very clear as someone who deals daily with the finances of this city, and its entrepreneurials that you do not see a great deal of benefit out of the tax package that was passed by Congress in 1981, that will benefit small businesses. I would like you to comment on this statement.

Is it not true basically, that mature industries, such as steel, automotive, chemical, heavily-fixed industries will be the primary beneficiaries of the tax cut program? These industries, at least in the city of Philadelphia and perhaps also true of other older northeastern urban areas, have not expanded or provided new job opportunities in the city of Philadelphia. They tend to be older and much more mature industries, which—in Philadelphia's case—are in a state of retrenchment, at best, having already left the area in significant numbers.

For example, over 15,000 new service jobs were created in the city last year, while at the same time, we lost 8,800 manufacturing jobs. Because these newer industries tended to be highly capital intensive, carrying only a minimum amount of fixed assets, they will not perhaps be able to avail themselves of the sizable depreciation allowances that Congress passed last year. Thus, the capital which could potentially stimulate the reinvestment and business expansion among these newer growth industries, is not provided for in sufficient amounts in the legislation passed by Congress last year.

Would you generally agree or disagree with that statement?

Mr. McCLOSKEY. I would agree that, again, plant and capital expansion is not the biggest concern right now. The concern is financing, we are in the trenches: 3-, 5-, and 10-year package. It is very nice, but it is not going to do anything.

Mr. GRAY. Let me change the subject from taxes to something else, which the chairman raised, which I am equally concerned about as a Member of Congress from this city. Would you please tell the committee what the level of minority business participation has been in federally assisted projects in Philadelphia over the last year?

Mr. McCLOSKEY. Sir, I will get back to you; I do not have that figure.

Mr. GRAY. I would appreciate having those figures, as to what minority business participation has been in federally assisted projects in Philadelphia for 1981.

The city's fiscal year 1982 capital budget projects an estimated $241.9 million in Federal assistance for various city projects. Do you have any idea of how much of that $241.9 million is targeted for small businesses?

Mr. McCLOSKEY. Sir, the managing director has a staff working just with that.

Mr. GRAY. Could you possibly submit that information?

Mr. McCLOSKEY. I certainly will; that along with the report.

Mr. GRAY. Also, how much of that $241.9 million for the fiscal year 1982 of the city's budget will be directed not only at small businesses, but also at minority businesses. The question was raised by the Chair in the beginning, and I would like to pursue it a little bit further, if I might, Mr. Chairman. You were talking about an ordinance. You raised the question of whether there was a set-aside ordinance in the city of Philadelphia. I am glad Mr. McCloskey clarified that the minority business council is considering one, because there is not one in the city of Philadelphia.

Could you, perhaps, tell me whether or not the minority business council, which has been in operation in the last 2 years, will be supporting Councilman Blackwell's bill 343, which calls for a set-aside program for minority business?

Mr. McCLOSKEY. Sir, I cannot comment on that; I do not know.

Mr. GRAY. I think that that would be very interesting. I would be very interested in knowing that, particularly since the figures that we have in our hand are really abominable. Basically, I would like to share with my colleagues that, here, in the city of Philadelphia, over the last 3 years, city funded contracts amounted to

$875,580,975 over the last 3 years. Over the same 3-year period, according to the figures that I have received, which I have not heard the city administration refute in any way, shape, or form in the last month, since they were raised by Councilman Blackwell, is that $774,222 went to minority businesses during that same 3-year period.

Mr. MITCHELL. Will the gentleman yield?

Mr. GRAY. I certainly will yield, Mr. Chairman, but let me just add that represents nine one-hundredths of 1 percent.

Mr. MITCHELL. Well, you have answered my question. I was about to say that is not even 1 percent, is it?

Mr. GRAY. No, it is nine one-hundredths of 1 percent.

I would also point out to this committee that, according to my estimates and those of my staff, that minorities pay in to the city of Philadelphia approximately $400 million a year in taxes. Thus, it seems to me that there ought to be, certainly, a greater reinvestment in the minority business opportunity, particularly, as many of my distinguished colleagues know, that small businesses account for most of the long-term employment in America. If we are to provide long-term employment in this country, it seems that the procurement process of the city of Philadelphia ought to radically be changed and these figures really show a disinvestment of the minority community. On the one hand, taking $400 million worth of minority taxes every year and at the same time, over a 3-year period, recycling back $774,000 out of a total procurement of $875 million.

I would like very much to see whether or not the minority business council, which Mr. McCloskey talked about, is prepared to adopt a vigorous position in support of one piece of legislation introduced into city council. Although my office has been working on the figures, we have yet to receive the figures with regard to the minority participation in federally assisted contracts. It is our belief in our office that the guidelines which this committee and yourself, Mr. Chairman, passed and set aside legislation are not being met by the city of Philadelphia. I would certainly hope that we could get those figures as to the federally assisted projects, because I think that it is an absolute disgrace that this condition exists.

Could I just ask one other question? Philadelphia has received the first section 20 Urban Mass Transit Authority grant, which provides, my colleagues, $1.5 million loan fund for capitalization for minority businesses. Could you tell me, Mr. McCloskey, if you will, whether or not the city has put up its share of that $1.5 million which is $300,000, which would therefore create the revolving capital loan fund for minority businesses to do contracting in urban mass transit, and could be leveraged into $15 to $20 million worth of contracts for minority businesses? Do you know whether or not the city has done that as yet?

Mr. MCCLOSKEY. Sir, I do apologize; I have no idea. I will find out today for you and forward that to you.

Mr. GRAY. Well, I certainly would be interested in knowing that because, based on our knowledge, the city has been dragging its feet in providing its 20 percent of those moneys at a time when these figures show a total disinvestment of the minority community, as well as the fact that the so-called Philadelphia plan the chairman mentioned is not really working at all.

Mr. SMITH. Would the gentleman yield for a question?

Mr. GRAY. Yes, I yield to my colleague.

Mr. SMITH. I thank the gentleman for yielding.

Would you happen to have the percentage of the $875 million that minority businesses have bid upon? I am not sure how many projects are actually bid upon. Perhaps they do not know about it, or they do not feel they could provide a certain service whether it be a construction project, or whatever. So if you have some idea of when they do bid, how much do the minority enterprises get?

Mr. GRAY. To my colleague, I will respond that it is our understanding that the overwhelming majority of these contracts are nonbid contracts.

Mr. SMITH. I see.

Mr. GRAY. They are discretionary; they are awarded. Many of them are not a bid.

Second, I think the minorities have been bidding, but the clear fact is that minorities have not been getting their fair share of these contracts.

Mr. SMITH. Is the problem not being competitive or not getting bonding? Where does the problem lie there?

Mr. GRAY. From talking with minority business people, I would inform my colleague that there are several factors. The most important one is a lack of information as to the bidding process when it is going to occur. Of course, one of the very good ways that you can keep somebody out of the competition is that you do not inform them that the contract is up for bidding. Or if you do inform them, you inform them in just a short period where there is not sufficient time to put together a competitive bid whatsoever.

Mr. MITCHELL. Yield to me for just a moment.

Mr. GRAY. I am sure the Chair can comment more.

Mr. MITCHELL. I just wanted to say briefly that is why I pushed so hard for set-asides. You place the burden elsewhere. There are a myriad of reasons why minority firms would not get a shot at the competitive bidding, even if it is there, but when you have a set-aside, then you place the burden, really, on the city or State or the Federal Government to make sure that people are notified; that is one of the advantages.

Mr. GRAY. I would also point out that, in our conversation, to my colleagues, with minority businessmen in the city of Philadelphia, we have found that often other bidders are given the information months in advance before it is even posted. Thus, they are able to prepare themselves.

So, I would just simply point out that at the time when we are talking about cutting back in human services programs and talking about revitalization of the private sector as a means of providing long-term employment, which I am committed to, we also see this kind of pattern existing both at local as well as in Federal Government levels. Unemployment figures that are totally unacceptable for the city of Philadelphia, particularly in the minority community. If we are going to turn around the unemployment, particularly in the minority community, and do it without welfare programs and short-term job training programs, then these kinds of figures are going to have to change. It is tragic that this administration, locally, has not taken the initiative after 2 years of being in office to move aggressively to change this.

Mr. **Smith**. If the gentleman would yield further, I would just point out that Secretary Dennis' office of procurement information which provides advance information really is not providing advance information at all, if the gentleman's information is correct. It is equalizing what the others are getting prior to the small business community.

Mr. **Gray**. I think that the Secretary was talking about in the State.

Mr. **Smith**. I know; I understand that. I am just saying that would provide a model that could be implemented on the local level.

Mr. **Gray**. Perhaps that could be a model that could be implemented, but I think that what is needed is legislation, set-aside legislation, and put the burden elsewhere, because you certainly cannot take $400 million worth in taxes from the minority community and then over a 3-year period recycle back to that community only $774,000 and expect unemployment, expect to deal with high crime rates, expect to deal with all of the other plethora of disintegrating forces that bring down urban America.

Mr. **Mitchell**. Thank you very much.

Thank you, Mr. McCloskey, for coming. You say some written testimony is on the way?

Mr. **McCloskey**. Yes, Mr. Chairman.

Mr. **Mitchell**. Thank you. We would appreciate your response in writing to the questions that were raised that you were not prepared to answer, and I could understand why you were not. Thank you very much.

[The responses to the questions raised were not supplied by press time.]

Mr. **Mitchell**. Our next witness was scheduled to be city Councilman Lucien Blackwell. However, he had to leave, and Mr. Stan Hines, for the office of the city solicitor, is present. Will you present his statement?

Mr. **Hines**. Yes, sir, I will.

Mr. **Mitchell**. Thank you very much.

Mr. **Hines**. For the record, my name is Stanford Hines. I am a member of the technical staff of city council. I am not a member of the city solicitor's staff.

Mr. **Mitchell**. Thank you.

Mr. **Hines**. This is Beverly Harper to my right, she is the president of the brain trust, which is a local organization of minority business persons. She has been working with Councilman Blackwell on the set-aside legislation which was recently introduced by the councilman. She will be commenting upon various aspects of this legislation subsequent to my presentation of Councilman Blackwell's position. By the way, I have some copies of the councilman's prepared statement.

Mr. **Mitchell**. Could I ask that they be distributed?

Mr. **Hines**. Yes, sir. If you have not had a chance to read them, then I think I am going to avail myself of the provisions of option two under your guidelines.

Mr. MITCHELL. Thank you. Obviously, I have not had a chance to read your statement.

Mr. HINES. Yes, sir. The statement itself is relatively brief. If you are alarmed at the thickness of the packet, you will be relieved to note that most of it consists of an appendix. The statement itself, as I stated, is relatively brief.

Mr. MITCHELL. All right. If you will proceed with the statement, that will be excellent.

Mr. HINES. Yes, sir.

TESTIMONY OF STANFORD HINES, MEMBER, TECHNICAL STAFF OF CITY COUNCIL, REPRESENTING COUNCILMAN LUCIEN E. BLACKWELL, CITY OF PHILADELPHIA, PA.

Mr. HINES [reading]. Congressman Mitchell and members of the committee. My name is Lucien E. Blackwell, councilman of the city of Philadelphia. I am chairman of the finance committee of city council, chairman of the black-elected officials of Philadelphia, and chairman of the black-ward leaders of Philadelphia. In speaking today, I am not only expressing my own personal views, but those of the above-named organizations as well.

I am the prime sponsor of the bill before the city council known as the minority set-aside bill. In just one area of contracts let by the city of Philadelphia, public works department, the figures for the last 3 years are as follows:

One, 1979, of 400 total contracts amounting to over $114 million, the total contracts allotted to minority business enterprises were three, amounting to a little over $129,000, a percentage of eleven one-hundredths of 1 percent of the total.

Two, 1980, of 387 total contracts amounting to over $160 million, minority business enterprise received two contracts totaling over $538,000, a minority percentage of thirty-three one-hundredths of 1 percent.

Three, 1981, of contracts totaling over $145 million, there were no minority business enterprise contracts.

Mr. MITCHELL. You went from bad to worse.

Mr. HINES. Yes, sir.

Mr. MITCHELL. I am sorry; I should not have said that.

Mr. HINES. The evidence speaks for itself and certainly, in the last year, when there were no contracts which went to minority business enterprise, we can say that we went from a bad situation to a worse situation; that is the record.

The total for all city of Philadelphia contracts over the 3-year period amounted to over $875 million, with minority business enterprise receiving contracts for only $774,222, a percentage of nine one-hundredths of 1 percent. The source is the Philadelphia procurement department procurement annual reports. For further information regarding all city of Philadelphia contracts see the entire procurement department study attached to this testimony and it is marked in the appendix.

The economy is in such shape that all types of businesses are failing at a tremendous rate. Interest rates are killing off small and minority businesses at record rates. However, even in these tremendously hard economic times, minority entrepreneurialship is growing from 163,000 minority-owned firms 11 years ago to 231,000 minority-owned firms now, a greater than 23-percent increase. The source is the U.S. Census Bureau.

As you know, Congressman Mitchell, one of the main reasons for this growth is the coming into existence of minority set-aside programs at the Federal level. It is my belief that through an application of the same principles and theories that led to the establishment of a Federal minority set-aside program on a local level, we can continue the growth of minority business enterprises. This continued growth will help strengthen the economies of the cities by increasing jobs and all linkages associated with the jobs, for example, increasing tax base, creation of jobs to fulfill the contracts and also service jobs for the needs of the contractors and employees, stimulate the purchase of goods and services from other industries not directly involved in the contract, having money to invest within the community, and an increased awareness of the responsibilities of active and viable members of the citizenry of the city.

People have questioned the legality of these minority set-aside bills, but that was settled by the Supreme Court in 1980. In the case of *Fullilove* vs. *Klutznick,* the Supreme Court held that Congress could mandate that a percentage of local public works contracts be set aside for minority businesses.

We are in a situation where many other cities have instituted minority set-aside legislation. These cities include Washington, Portland, Atlanta, Chicago, New York City, and Oakland. These kinds of programs are necessary because of the present lack of minority participation in city-funded contracts. Without some kind of action, there will be no change. With the growing reluctance to interfere with local government functions by the Federal Government, a strong stand has to be made by the cities themselves. When people have questioned minority set-aside, they most often do so because they feel that their use is by itself discrimination in the form of a quote. A quote implies a negative restriction limiting the amount of people who may become involved in a situation. The minority set-aside bill is not intended to prevent involvement, but to foster minority participation in the city through city-funded contracts.

The bill provides for an agency, under the direction of the mayor and city council, to best implement the goals and also, the discretion to waive certain provisions of the bill when it is clear that these provisions cannot be met, a situation where insufficient minority enterprises exist to meet the requirements, perhaps.

This agency, the minority business enterprise council, will have to promulgate regulations that will continue to meet all legal requirements, and will insure that the city is protected in its contracts from granting them to contractors and other prospective bidders that have not met the definition of "responsible." However, the word "responsible" will be reasonably interpreted so that it will not bring into the equation irrelevant evidence that will have no proper bearing on the ability of the contractor to complete his contract. This interpretation of "responsible" has at times been used as a block to a low bidder because of some irrelevant fact which has been used as a reason to declare a low bidder to not be a "responsible bidder." It is this covert racism that must be stopped, and has no part in the awarding of city contracts.

In answer to another objection to set-asides, the lack of qualified minority business enterprises, the existence of the city program will foster the availability of both technical and numerical qualified applicants as they will see that there exists a market for their skills. Along with present firms, the supply of qualified enterprises should not be a major stumbling block to the satisfactory completion of city-funded contracts.

It would be very nice to be in a situation where this kind of legislation is not needed. However, as figures show, affirmative action, if it exists at all, has had no appreciable effect on the granting of citywide contracts to reliable minority contractors. While the problem exists, stern measures must be used to remedy the situation. Even though the use of the long-term quote denotes a limit that some people find objectionable, we are implementing a cure for an illness that up to this point has had no cure.

If there are alternatives that we have not considered that will be effective, we will gladly consider them as a possible alternative solution. But until they are brought before our attention, there is no way to get minority contractors in a city with a 40-percent population of minorities their just share of city contracts. There is one portion of the population that falls within the rhetoric of being against reverse discrimination that is a real source of obstinance and is not truly a cooperating party in solving the problem. These are the people who use the term "reverse discrimination" as an excuse or a smokescreen in order to keep the status quo. In a city like Philadelphia, in a country like the United States, there is no place for this kind of veiled racism to exist. Overt discrimination may no longer be a noticeable part of society, but covert economic discrimination can be much more damaging.

Minorities, as well as all other people, can see a better life supposedly available for everyone from the media, from government and from business. But because of economic blockades placed in front of their path, they cannot reach their dreams and goals. This can and will destroy their spirit, as well as their ambition. No one, I repeat, no one, has the right to do this to another human being. In a time when everyone needs every part of their physical and spiritual being to just help them exact in these hard economic times, there is no place for a mechanism of government—the servant of the people—to act as part of the problem and not part of the solution.

Thank you, gentlemen and lady.

Mr. MITCHELL. Thank you, Mr. Hines. I just have two questions.

Mr. HINES. Yes, sir.

Mr. MITCHELL. How do you explain this miniscule participation of less than 1 percent one year, less than 1 percent another year, and then zero percent? What is the explanation behind this?

Mr. HINES. The explanation has not come, to my knowledge. I have looked at this situation myself over a considerable period of time, and I cannot commit myself to say what is on the minds of the persons who award these contracts. However, in my certain knowledge, it cannot be accounted for by lack of responsible and capable minority contractors standing ready, willing, and able to do the job.

Mr. **Mitchell**. OK. Then the other question. The administration recently proposed that the direct loan program under the Small Business Administration be abolished, except for direct loans being made available through the MESBIC program, the minority and prior small business investment companies. Are you aware of this?

Mr. **Hines**. I was not aware of that prior to today.

Mr. **Mitchell**. Now, having been made aware of it, are you in a position to make some sort of judgment as to what might be the possible impact of this elimination of direct loan money on the small businesses in this city? Small business, in general, the minority businesses in particular.

Mr. **Hines**. Sir, I am going to defer to my colleague, Ms. Harper. She is, as I stated, in the position to be much more aware of the effect of this.

Mr. **Mitchell**. I just want to get an estimate and an assessment of what the elimination of direct loan money, save through MESBIC's, would have.

Ms. **Harper**. In Philadelphia, the MESBIC's that exist operate pretty much the way banks do. In my remarks, I speak to some of the problems that exist in Philadelphia with respect to lending. So, in Philadelphia, it is not going to have an appreciable effect, because the MESBIC's here are equally as conservative as banks with respect to lending money to small businesses.

Mr. **Mitchell**. All right. Answer the other way around. Then, I guess I can infer from your suggestion that the direct loan program is needed.

Ms. **Harper**. Yes; the direct loan program is needed, in conjunction with policies and procedures that allow small businesses to access the funds that are available in MESBIC's. In Philadelphia, that does not happen.

Mr. **Mitchell**. All right. No further questions.

Mr. Staton?

Mr. **Staton**. Mr. Chairman, I listened with great interest to this testimony and found its indictment of the city devastating, in particular with regard to the awarding of contracts. I think that this certainly bears out the comments made by our colleague, Mr. Gray, a short while ago. I do not know that there are any other questions I can ask which would shed any further light on this subject than has already been done.

Mr. **Mitchell**. Thank you. I think I am somewhat stunned by the testimony myself. That is why I was limiting it to just two questions.

Mr. Weber?

Mr. **Weber**. Mr. Chairman, Mr. Hines, and Ms. Harper. I do not have a question, but I certainly have no objection to the set-aside program. I wanted to bring your attention to something that came before our committee earlier this year, or maybe it was last year, I quess, Mr. Chairman. That is the firm from Cleveland, Ohio, that came out and presented testimony when they began to aggressively pursue minority contractors through an aggressive search program, they discovered that they could get their products at a cheaper rate through the minority contractors than they could through their existing suppliers, which I think is interesting for the city of Philadelphia to take into consideration. Thank you for your testimony.

Mr. HINES. Yes, sir, Mr. Weber. I can speak to your comment by relating that during the course of some hearings, which were scheduled to collect evidence regarding the existence of past discrimination against minority contractors in the past, there was related and, in fact, I should say there were related several stories to the effect that the lowest bid was submitted by a minority contractor. That low bid was rejected for various reasons, but one of the recurring reasons for the rejection of that bid was that it was too low, that it was not thought that the contract could be completed according to those terms, even though many of the situations were based on past experiences that these minority subcontractors had had on Federal contracts which had been provided under the minority set-aside program. It was outrageous testimony, and I think that it was properly directed toward that comment.

Mr. MITCHELL. Mr. Smith?

Mr. SMITH. Thank you, Mr. Chairman.

You just pointed to a good point on bidding, providing the lowest bid and not receiving the contract. I used to write bids for my small business, my parents' business. It is a wholesale sporting goods business. We very often would go in with the lowest bid on items like baseballs that were not substitutes like the Reach All American baseball and other things, and not get the bid. Sometimes the explanation that we were not being considered responsible would be floated, or some similar explanation would be given. I just want you to know that it is something that is shared by many other small businesses, not just minority businesses.

I used to go to the bid openings and sit there, and see a friend of the director of purchasing getting the bid when we were low man; time and time again this would happen. So it is a widespread problem that I think all small business people face, but I think it has to be confronted. I think the idea of a set-aside may be an answer.

Another answer might be to change the way that we determine who is responsible, and who is not.

I was just wondering if, perhaps, you asked for suggestions, if the Minority Business Enterprise Council might have one or two of its members sit on an approving mechanism that would say, "These people are approved for these kinds of contracts, or for these kinds of bid proposals." That would insure that any kind of covert discrimination that you referred to in your testimony would be eliminated, to have that kind of input.

Mr. MITCHELL. Are you suggesting something roughly like a local certification program?

Mr. SMITH. Yes; that is exactly what I am suggesting.

Mr. HINES. Yes, sir, Mr. Smith and Mr. Mitchell, I can respond to your comments by stating that under Mr. Blackwell's proposed legislation there would be established a Minority Business Enterprise Council, which would consist of two representatives from the mayor's office and six members from the local minority business community, who would be able to sit in judgment over the types of standards which would be required for the definition of responsibility under all of the statutes and guidelines under which we have to base our actions in the city. They would certainly be able to apply some real world standards to who could, and who could not, complete performance under the contracts which would be offered under this legislation.

Mr. **Smith**. I think it is an excellent idea. Having been burned in that bidding process myself, I can attest that I know what you are going through and I know what other minority businesses are going through. I hope that passes.

Mr. **Mitchell**. Maybe we should consider a set-aside for your firm.

Congressman Gray?

Mr. **Gray**. Thank you, Mr. Chairman. Let me just simply say, based on the testimony of the previous witness from the city, Mr. McCloskey, who said that there was a Minority Business Council in existence for 2 years, and then looking at these figures for the last 2 years, I certainly would not want the Minority Business Council that presently sits in the city of Philadelphia to be the judge. Because, obviously, over the 2 years, they have not done very much to correct the inequities that have existed, as one looks at these figures, but that is not to say that such a mechanism might not work. So I just wanted to point out that the earlier witness testified that this Council has been in existence for 2 years. These figures have actually gone down, as the chairman said, from bad to worse.

Ms. Harper, you mentioned the fact that the minority businesses have a very difficult time in the MESBIC programs? Would you clarify and amplify that statement? What is the problem that minority businesses have here in the city of Philadelphia in terms of getting capital funding?

Ms. **Harper**. I have a number of statements that relate to the environment for minority businesses here in Philadelphia. I think it might be helpful for me to go through my remarks now, rather than taking them out of order, but I will do what you ask. If you want me to speak to that first, I will.

Mr. **Gray**. Could you speak to that? You tended to say that they act like banks. Are they supposed to act like banks or not act like banks?

Ms. **Harper**. In April 1980, the Philadelphia Inquirer did a feature story on the policies and realities of loans to small businesses here in Philadelphia. The situation described needs no editorial comment.

The Greater Philadelphia Venture Capital is an organization financed by local banks with the sole purpose of lending to minority businesses. The total bank investment in the corporation is $537,000, with the largest contribution being $89,000. In comparison, banks in Boston have contributed $8 million, banks in Chicago, $6 million, and in Los Angeles, $5 million to similar lending institutions. Here. [illegible] get just a little over one-half million dollars.

The Sout[illegible]rn Pennsylvania Development Fund is also a special lending agency, funded by banks and grants from the Philadelphia Industrial Development Corp. and the Philadelphia Industrial Loan Fund. Seventeen local banks are shareholders in SPED, whose book value of shares is a mere $1.1 million. That is an average of almost $64,000 per bank.

Mr. Mitchell. I am sorry to interrupt, but, Congressman Gray, we do have Ms. Harper scheduled as a separate independent witness on the fifth panel.

Mr. Gray. All right.

Mr. Mitchell. I hope that she will present her full testimony at that time.

Mr. Gray. I will wait for that point.

Let me just ask one other point: As a business person, Ms. Harper, and a concern that we develop policies in Washington that will benefit the development of small businesses, what has been the impact of the legislation passed by the Congress in 1981 with regard to tax changes? Will that have a favorable impact upon your business, and other minority businesses that you are aware of?

Ms. Harper. My business is fairly small. We gross about one-half million dollars a year. The tax benefits are not touching us. One of the most severe problems we have is in the area of payroll taxes. When you are located in a city like Philadelphia, where a local payroll tax is about 4 percent, and the State taxes are 2 percent, and with the other contingent payroll taxes, we have a terrible burden related to payroll taxes. If we were located in an area of the country that does not have a local payroll tax, we would be in much better shape.

I think one of the kinds of policies that is needed is to equalize that spread for small businesses in the city where the tax rate is something approaching outrageous, given the fact that we are not getting our fair share of contracts. If something could be done at the Federal level to equalize that for us, so that we pay a ceiling of maybe 2 percent.

Mr. Gray. Thank you, Mr. Chairman.

Mr. Mitchell. I thank both of the witnesses very much. We appreciate it.

[The supplementary information received by Mr. Hines follows:]

APPENDIX

BLACKS AND MINORITIES -- COUNTED OUT IN CITY CONTRACT AWARDS

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ANALYSIS OF MINORITY BUSINESS ENTERPRISE PARTICIPATION IN CONTRACTS FINANCED BY CITY OF PHILADELPHIA FISCAL YEARS 1979, 1980, 1981

(JULY 1, 1978 - JUNE 30, 1979; JULY 1, 1979 - JUNE 30, 1980; JULY 1, 1980 - JUNE 30, 1981)

TOTAL AWARDS:	$875,580,975.00
BLACKS AND MINORITIES (ONLY):	774,222.00

MINORITY PERCENTAGE = 9/100. of 1%

SOURCE: Philadelphia Procurement Department
Procurement Annual Reports

I Fiscal Year 1979

A. Public Works:

Total: 400 contracts amounting to $114,011,310.00
MBE: 3 contracts amounting to $129,001.00
Minority Percentage: 11/100 of 1% of total

B. Concessions:

Total: contracts amounting to $12,011,538.00
MBE: No contracts amounting to ZERO

C. Services: (Professional contracts and consultants)

Total: contracts amounting to $67,303,886.00
MBE: 4 contracts amounting to $25,675.00
Minority Percentage: 4/100 of 1%

D. Supplies:

Total: contracts amounting to $40,588,110.00
MBE: 5 contracts amounting to $23,039.50
Minority Percentage: 6/100 of 1%

E. Equipment:

Total: contracts amounting to $6,354,515.00
MBE: No contracts amounting to ZERO

Summary: 1979

Aggregate dollar amount of contracts $240,269,359.00
Aggregate MBE dollar amount (7/100 of 1% of total dollar amount) $177,715.50

Fiscal Year 1980

A. Public Works:

Total: 387 contracts amounting to $160,384,204.00
MBE: 2 contracts amounting to $538,500.00
Minority Percentage: 33/100 of 1%

B. Concessions:

Total: contracts amounting to $12,000,000.0
MBE: No contracts " " ZERO

C. Services: (Professional contracts and consultants)

Total: contracts amounting to $ 75,646,255.00
MBE: 6 contracts amounting to 17,600.00
Minority Percentage: 2/100 of 1%

D. Supplies:

Total: 7,527 contracts amounting to $52,085,449.00
MBE: 1 contract amounting to $7,044.00
Minority Percentage: 1/100 of 1%

E. Equipment:

Total: 1,329 contracts amounting to $91,365,000.00
MBE: No contracts " " ZERO

Summary: 1980

Aggregate dollar amount of contracts $391,480,908.00
Aggregate MBE dollar amount (15/100 of 1% of total dollar amount) $563,144.0

III Fiscal Year 1981

A. Public Works:

Total: contracts amounting to $145,384,127.00
MBE: No contracts " " ZERO

B. Concessions:

Total: contracts amounting to $11,875,000.00
MBE: No contracts " " ZERO

C. Service: (Professional contracts and consultants)

Total: contracts amounting to $24,850,571.00
MBE: 2 contracts amounting to $5,350.00
Minority Percentage: 2/100 of 1%

D. Supplies:

Total: contracts amounting to $39,161,962.00
MBE: 6 contracts amounting to $28,012.00
Minority Percentage: 7/100 of 1%

E. Equipment:

Total: 380 contracts amounting to $22,559,048.00
MEE: No contracts " " ZERO

Summary: 1981

Aggregate dollar amount of contracts (City money) $243,830,708.00
Aggregate MBE dollar amount (1/100 of 1% of total dollar amount) $33,362.00

Grand Total 3 years amount of City funded contracts $875,580,975.00

Grand Total 3 years amount MBE contracts $ 774,222.00

Minority Percentage = 9/100 of 1%

Mr. MITCHELL. I would like to make an announcement now. I understand there are some regulations which require us to break for lunch at 12:30. I had really planned to just continue right through.

Mr. STATON. It does not say how long we have to break, does it?

Mr. MITCHELL. It does not specify how long the break should be, but we will just proceed, and we are going to hear everyone here today. We do have to break promptly at 12:30 because of some local situation.

Our next witness is Mr. Peter Terpeluk, the regional administrator of the Small Business Administration.

Mr. Terpeluk, I will suggest to you, as I have to other witnesses, we do have a copy of your statement. We did get it in time to read it, so if you care to just summarize your statement and open up for questions, that will be fine with us. If, on the other hand, you want to present your statement in its entirety, that is up to you.

Mr. TERPELUK. Mr. Chairman, in light of the fact that I have the distinct pleasure of having three members from my region here today, I would very much like to read my statement, because I think there are some very informative statistics in here.

Mr. MITCHELL. Fine; no problem.

Mr. TERPELUK. I would like to take the opportunity to first thank the committee for giving us an opportunity to participate.

TESTIMONY OF PETER TERPELUK, REGIONAL ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

As you are aware, region III consists of five States: Pennsylvania, Delaware, Maryland, Virginia, West Virginia, and the District of Columbia. Since we are here in Philadelphia and 50 percent of all small businesses in the region are located in Pennsylvania, and 80 percent of those are in Metropolitan Philadelphia, much of what I have to say will be addressed to that marketplace.

Mr. Chairman, I come before you today not only as a spokesman for the SBA, but also possessed of an objectivity which only a recent appointee can claim. I feel that I fully understand the position and goals of my agency, but I also see them in a perspective of the community under the aegis of SBA. Since leaving my position in local government some 5 months ago, I quickly determined that the services and resources available at SBA were, without a doubt, one of the best kept secrets of the Federal Government. The SBA continues to be characterized as a loan company. I hope today that I can emphasize a few of the myriad of services available to the small business community under the SBA.

In 1953, Public Law 85-536 created the SBA to "aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprise." The Federal Government realized that 80 percent of all jobs, and 45 percent of the gross national product came from small business. As regional administrator, Mr. Chairman, I am pursuing the cause of the small businessperson in three basic areas. Of primary importance in these days of budgetary restraints and shrinking resources is mobilization of the community in support of our goals. This region had 395 employees 18 months ago; today we are operating with 340.

By leveraging the SBA forces with chambers of commerce, State Economic Development Companies, banks, and trade organizations, as well as major industrial interests, we have the ability to amplify our effectiveness. In my conversations with leaders of the Philadelphia area community, such as Thatcher Longstreth of the chamber, Bob Price at Girard bank, as well as John Bowser at the urban coalition, and Mr. James, who is going to testify before you here today, we all agree on the needs of the small businessperson.

However, and I think this is important, as a recent Philadelphia Inquirer editorial stated, "The city is deficient in the sort of organization and leadership needed to implement ideas."

The SBA not only feels an obligation, but is eager to play a role of catalyst in helping our economy back to health. Our management assistance program is a prime example of the leveraging that can take place. Through the use of volunteers in SCORE, management assistance has almost 1,000 experienced and interested citizens involved in the small business cause. The management assistance program utilizes chamber of commerce facilities for small business resource centers, where dissemination of information and direction of resources can take place.

As you know, the small businessperson today must traverse a turbulent sea. In our attempt to help him or her navigate those troubled waters, we lean heavily on our formal relationship with trade associations and industry groups to give us that valuable feedback that allows us to address the vital questions which confront various lines of business today.

In my recent meetings with the American Mushroom Institute, for example, I was much encouraged to see the aggressive posture that this organization is taking in marketing their product, striving for greater efficiency, and pressing for legislative protection from foreign imports.

In terms of reaching our mark, it would be noted that in fiscal year 1981, 34,000 individuals attended SBA or SBA-cosponsored seminars and workshops in this region; 10,000 attended in Pennsylvania alone. We at SBA recognize that we do not have all the answers, but through programs like the small business development center program, where we have cooperative agreements with universities such as the Wharton School at the University of Pennsylvania, we feel that we can provide 1 to 1 consultation and evaluation that can make the difference for a young struggling business.

Second only to knowing how to run a business is the priority of having the capital to see that business through. Region III approved or guaranteed 2,116 loans in fiscal year 1981 for a total of $234 million, which approximated the same numbers and dollars for fiscal years 1979 and 1980, the 3 best years in region III's loan approval activity. During fiscal year 1981, certified lender activity was 23 percent of the total approved. Total minority loan approvals were $30.7 million in fiscal year 1981; $33.6 million in 1980; and $35.2 million in fiscal year 1979.

Region III strongly endorses the administration's goal of improving the quality of SBA's loan approvals. Region III is also committed to the administration's goal of collecting moneys due the Government. On September 30, 1981, region III's total loan portfolio, which includes both guarantee and direct loans, was 33,411, totaling $1.2 billion. Of that amount, 77.2 percent, or $943 million, was current. This approximated our 1982 goal of 78 percent. Since last summer, through intensive collection efforts, we have been able to maintain a current rate of 75.7 percent as of January 31, 1982. Just as importantly, we recovered $14.7 million of our $110 million liquidation portfolio in fiscal year 1981. Through more diligent efforts, we recovered $7.5 million for the 4 months ending January 31, 1982, and we expect to recover $22 million by the end of the fiscal year—an expected 49.7-percent increase over last year. We will continue to emphasize collections by putting more of our resources in that area.

From a practical standpoint, our emphasis in lending has been on the guarantee lending program because most of the loan processing and evaluation is done by the local bank. However, I feel that the borrowers, too, will be the beneficiaries in the long run by establishing working relationships with their local bank. The guarantee lending program makes us wholesalers, and facilitates the creation of a stronger rapport between bank and borrower.

The program that personally excites me the most, because of my background in Government, is the 503 program, because of its private and public sector activity. This program was initiated to facilitate investment in fixed assets and real estate through local economic development companies. SBA guarantees up to $500,000 or 40 percent of the project costs on federally guaranteed debentures, by selling federally guaranteed debentures. The attractive part of this whole program is that the economic development company is made up of community oriented individuals who lend their expertise to projects which they have identified as applicable in their particular city, county or State. Again, this takes the Federal Government out of the business of deciding which project is best for a given area. It leaves the decision where it belongs, at the local level.

The program which probably has the greatest impact and gets the least recognition, particularly here in region III, is the procurement program. I am extremely proud that region III generates the greatest dollar value of Government contracts in the United States. Region III alone accounted for Federal procurements adding up to $44 billion, $10 billion of which went to small business.

SBA continually tries to increase both the dollar value, and percentage of total awards to small business, principally through the work of its employees called procurement center representatives, or PCR's, stationed at selected military and civilian activities with major buying programs.

Public Law 95–507 requires that the firm involved in Federal procurement prepare a subcontracting plan setting forth percentage goals for utilizing small business concerns, including separately identified goals for disadvantaged small business. In addition, the prime contractor must describe the efforts it will take to assure that such firms have an equitable opportunity to compete for subcontracts. In addition to overseeing compliance with the law, SBA is an active ombudsman for small businesses having problems with a procuring agency. We also participate in procurement conferences, seminars, and fairs explaining SBA's procurement assistance programs and help introduce small businesses to the buying activity.

Other devices such as certificates of competency, which certifies the competency of a contractor, as well as the technical assistance program, which provides technical expertise to small business, are regularly utilized to expand the horizons of the small business. This multifaceted approach to assuring the small and disadvantaged businessperson with a piece of the Federal procurement pie has the effect of not only generating much needed sales volumes for young companies, but also provides them with the practical hands-on experience of dealing with the Federal Government.

Mr. Chairman, I know that the focus of the committee's interest at this time is the minority small business and capital ownership development program. I also am aware of your keen interest and personal knowledge of that program. I ask your indulgence in explaining some of the basic aspects of the program for the record.

The minority small business and capital ownership development program is SBA's vehicle to promote equal access for socially and economically disadvantaged individuals to participate in the business sector of the Nation's economy. It recognizes the historical lack of equal access that minorities and other disadvantaged individuals have had for the resources needed to develop their small businesses.

The MSB and COD program is comprised of the 8(a) and 7(j) programs. The 8(a) program refers to that section of the Small Business Act which authorizes SBA to enter into contracts with Federal agencies and departments. Similarly, 7(j) refers to that section as it relates to management and technical assistance to socially and economically disadvantaged individuals and concerns, as well as other eligible concerns based on the eligibility criteria.

Region III has an 8(a) portfolio of 582 firms, which represents almost one-third of all the 8(a) firms in this Nation, the largest portfolio in the Nation. In fiscal year 1980, we awarded $539 million in 8(a) contracts, and in fiscal year 1981 we awarded $531 million. To date our accomplishment is $114 million.

So far this fiscal year, we have 205 8(a) firms which have received 82 contracts or modifications to contracts, significantly increasing contract dollars. Recognizing some of the past problems, we are now placing more emphasis on equitable distribution of contracts, and are placing significant importance on the levels of support. We are making matches which complement these support levels.

When a requirement comes in and can be performed by numerous firms, we are placing emphasis to assure that the firm without a present contract gets the match. To assure that all firms receive a minimum of at least one contract per year, we are keeping a tracking report which, at a glance, tells the business development specialist which firms have not received a contract in this fiscal year.

The Philadelphia 8(a) portfolio accounts for 12 percent of the regional portfolio; we have 71 8(a) firms. Their 8(a) awards for fiscal years 1980 and 1981 were virtually unchanged, that is $52 million. To date they have awarded, and this is a correction here, $16 million to 30 firms; that is $16 million. Business development expense approvals for fiscal year 1981 totaled $344,000, while thus far in 1982 we approved $477,000.

Quite frankly, Mr. Chairman, the MSB and COD program has been the biggest challenge since taking on my responsibilities as Regional Administrator. Upon arriving in October 1981, my desk was littered with congressional inquiries, and acrimonious complaints directed at the 8(a) program itself. The program was overshadowed by numerous ongoing investigations. The staff was demoralized, 8(a) contractors were frustrated, and the procuring agencies were alienated.

Rome was not built in a day, but since October we have a new Assistant Regional Administrator for the MSB program, a new Assistant District Director for the MSB program in our Philadelphia District Office, and a new District Director and Deputy District Director in our Washington District Office. In addition, we have assigned a new staff of approximately 12 additional permanent people to our Washington District Office. After making these major personnel commitments, we are following up with extensive training and close supervision to bring credibility back to the program, which has been much maligned.

Nationally, there are 40,000 minority businesses that could benefit from this program. Presently, there are 2,000 who are certified; obviously, there is much to be done within the framework of our recourses. Please be assured that we are aggressively pursuing the interests of the minority-owned businessperson.

Mr. Chairman, we here in the Philadelphia region realize the central role that you and your committee play in regard to small business in general, and our agency in particular. We value greatly the time you have given us today. It has afforded us the chance to report on what we are doing. I am also looking forward to hear any insights that the committee may have that may further the cause of the small business. Working in tandem, I feel we can have a true impact on that part of the economy which we mutually realize is of such great importance.

Thank you, Mr. Chairman. I will answer any questions.

Mr. MITCHELL. Thank you very much for a very comprehensive statement. I guess I have some observations to make first, and then some questions. You know for the length of time that I have served on this committee, and it is almost 12 years now, I have heard a great deal of talk about the SCORE program.

Mr. TERPELUK. Yes, sir.

Mr. MITCHELL. Yet when I get out in the field and I talk to individual businessmen, the SCORE activities range from a one visit to a businessperson or to as many as three or four. I really have some serious questions about the viability or the workability of the SCORE program. I raised this throughout the years and from time to time past administrators have suggested that, indeed, there was a lot of dead wood in the SCORE program. People having their names as being participants in SCORE, but really not doing it very much. Each time that I have raised this, there has been a commitment made that the dead wood would be eliminated and that there would be some sort of a reassessment of the effectiveness of SCORE.

Do you find the SCORE program effective here? You, formally, across the board with all the participants doing their share?

Mr. **Terpeluk**. Mr. Chairman, I had the distinct pleasure of meeting for the first time with my regional SCORE people from all the States this week. They are the leaders of the programs in those particular States. To answer your question, I believe that you cannot look at SCORE as a panacea to our management assistance problems. I would like to point to an example right here in Philadelphia and the State of Pennsylvania, along with what Secretary Dennis alluded to in her earlier statement.

We have an unusual situation at the Wharton School of the University of Pennsylvania which has an extremely large small business development center. We have seven satellites across the State and colleges that are working with them. Where I am coming from here is what is occurring: The small business development centers are literally taking a large majority of the caseload that, in some cases, went to a SCORE representative. What I see personally occurring is that there is going to be sort of a new nook for the SCORE person in terms of the type of case that he or she is going to handle.

I believe the small business development people, the people in that program, the center program, realize that too, especially in these trying times right now. So, I think there is a role, but I do not believe it is going to be a panacea.

Mr. **Mitchell**. OK. I will not belabor that, but I still have a lot of concern. You know it is prestige to have your name listed as one of the SCORE participants. Yet, to go out just 1 day and visit a guy in his shop and say "I think you ought to do this, this, and this," is not very meaningful, but I will not belabor that point.

Also, let me get off my chest a little about seminars. I like seminars; I think they are good. In effect, I guess this is kind of a seminar going on here this morning, but the bottom line in all of this is what comes out of that seminar. Does a guy get a contract? Does he really get his business improved? Throughout the years I have been to many of the seminars and the tragedy is, I see the same faces over, and over, and over again. What I would like to see is the kind of setup that has occurred by minority purchasing council and other agencies, where you have your seminar, but you bring your private sector in at the same time. That procurement officer sits there and says, "Here are the things that we need." You have your minority businessmen sitting right there.

OK? You do not have to answer that.

Mr. **Terpeluk**. I would really like to.

Mr. **Mitchell**. But seminars are nice; I enjoy the coffee and buns that they serve in the morning.

Mr. **Terpeluk**. My staff, behind me, Mr. Chairman, must all have smiles on their faces. Because on the priorities I set in seminars, in terms of play-in, is that I want a hands-on approach.

Mr. **Mitchell**. Yeah.

Mr. **Terpeluk**. We have to make the connection. We cannot go up and tell them about all the pretty programs we have. What we are trying to package—as a matter of fact, we are going to have probably the largest one in the country in Pennsylvania in June. We are going to have a procurement conference seminar where, literally, by the second day that businessman is going to sit in a vestibule with that person from any agency that he wants. When he leaves there, he is going to have something of substance.

Mr. MITCHELL. Do you plan to have the procurement people right there?

Mr. TERPELUK. Right there.

Mr. MITCHELL. Now, that makes sense.

Mr. TERPELUK. We are also taking that, not only on statewide basis. We are piloting it, and we are going to take it on the road. We are going to do it in Baltimore, for example; we are going to do it in West Virginia.

Mr. MITCHELL. Well, I will be at the one in Baltimore. All right, let me move on because I know there are other questions. But on seminars, in the past, it has been sounded for signifying not much of anything really.

In your proposal to get more participants in the 8(a) contract, do you suggest that you plan to limit a participant to one contract a year?

Mr. TERPELUK. No. We are going to try to get them at least one a year.

Mr. MITCHELL. At least one.

Mr. TERPELUK. We have so many that are not getting any right now and it is not fair.

Mr. MITCHELL. In the event that you get at least one and that is all that you can get for that one guy, suppose that is a $25,000 contract. Has he been helped?

Mr. TERPELUK. No, I think it is going to be on a case by case basis. As I mentioned in my testimony we are not going to be giving one firm 25 contracts. We are going to try to take the pie and cut it up and get as many companies involved as possible.

Mr. MITCHELL. I do not have any quarrel with that approach. I just wanted to make sure that we do not bend over backward the other way and say, "Look, Buddy, you got yours for this year; that is it. Be happy and grateful." That would not work either.

I am awfully concerned about SBA and its role in implementing Public Law 95-507. I have gotten all kinds of horror stories from around the country where, in some instances, and I know on the west coast some 40 odd contracts under Public Law 95-507 were simply not reviewed by the SBA officials at all. What are you doing, really, to implement Public Law 95-507 specifically?

Mr. TERPELUK. To be specific, I think the one thing that I have learned about this job is that 95 percent of the problems are people problems. What we are trying to do is manage this agency in that particular program like a business. We have to make sound business decisions like we were a business down on Market Street here in Philadelphia. We cannot just do general management on a program. If we cannot deliver the service. We can all talk about all the programs that we would like, and what we want in the end, but if SBA cannot deliver, and deliver in an effective and efficient manner, it is not going to happen.

So to answer your question, Mr. Chairman, you know, right now, my whole thrust has been one of the management aspect, whether it is personnel, whether it is data processing or whatever it may be.

Mr. **Mitchell**. Well, let me say this, and I say it for the benefit of all my colleagues here on this panel. We have received testimony from various businessmen that they have gone into the agencies of Government to point out the failings of implementing Public Law 95-507, and they have gotten statements to this effect, "This is a new ballgame. We are not working on that any more. This is a new situation, a new administration. We have a different focus."

But my point is that is the law, and I do not think any bureaucrat sitting in any agency of Government has the right to say "I am not going to implement the law." I have a series of questions that I want to raise to you about the implementation of Public Law 95-507. I will submit those to you in writing, because that is such a critical thing for small and minority businesses. If we do not implement it, we do not get anything.

Mr. **Terpeluk**. OK. You have touched one here that I have really taken a lot of time to try to change. Mr. Chairman, to be frank with you, it is the word "attitude." Unless we have a change in attitude at the delivery level of SBA, it reflects what we are trying to accomplish, what you people want to see accomplished, and what the small businessman needs, we are going to fail. And I am taking pride right now in region III and I am trying to set that trend. OK? And the little situations like you just described, that is extremely irritating.

Mr. **Mitchell**. I would not be upset if I had only heard this once or a half a dozen times, but I am hearing it too much from all over the country. It is enormously frustrating and gets my blood pressure up. You say you are going to work on it.

Mr. **Terpeluk**. It is attitude, sir.

Mr. **Mitchell**. All right. I am aware of the time, and I am going to submit to you about 10 questions for a response, but I did want the other members to have an opportunity to raise questions.

Mr. **Terpeluk**. Sure.

Mr. **Mitchell**. Mr. Staton?

Mr. **Staton**. Thank you, Mr. Chairman. I would like to talk for just a moment, Mr. Terpeluk, about the debt recovery. When you read your testimony, you mentioned the current loan rate was about 75.7 percent as of January 31, 1982. Then you went on to say that you had recovered about $14.7 million of the $110 million liquidation portfolio in fiscal year 1981. You go on to say that through more diligent efforts, you recovered $7.5 million more for the 4 months ending January 31, 1982, and expect to recover $22 million by the end of the fiscal year.

Perhaps what I am going to suggest may spur your elaboration on your debt collection procedures, but I would caution SBA in these particular times we are in right at the moment from leveraging small businessmen to the extent that we become a collection agency and force small businessmen out of business. Perhaps a more judicious approach to collecting those past due bills would be better, notwithstanding the fact that you do have $110 million in liquidation. I certainly understand that part. I am just saying that when an account, 75 percent of which is current deserves further consideration. I do not know what your classification for noncurrent is. I believe a gentleman testified at one of our earlier meetings that it is 2 months.

Mr. **Terpeluk**. That is right.

Mr. **Staton**. Two months is considered noncurrent? We should be careful in collecting from, and bringing those accounts up to date, that we do not put additional pressure on the businessman. If you would not mind, would you please give us an overview of what you intend to do to collect the remaining $110 million in liquidation, which seems to me, money that could be quickly recycled back into the small business programs.

Mr. **Terpeluk**. Mr. Staton, you make an excellent point here. I do not want it to seem as though we have a bunch of people on the street banging doors down and selling houses. However, by the same token, we are extremely or acutely sensitive to the fact that the business times right now are tough.

To answer your question, I have kind of instilled in my portfolio management people basic philosophies, that is, if we have a person out there who we view through the financial statements and the sort, as capable of making payments, he had better look out because we are coming. If we have a person out there who is not capable of making payments because of the present state of the economy in terms of interest rates and things, we are going to work closely with him and we will bend every way possible to make him make it, to help him make it.

The third category is basically the person who just does not have it. We are trying to look at those companies and if they are in a State where it is helpless, well, then we are proceeding with liquidation. We are not going to sit around and talk about it.

But we are acutely sensitive, and that is the general approach that we are taking. I hope it is satisfactory.

Mr. **Staton**. Fine. I appreciate your saying that.

In your testimony you discussed region III's accounting for Federal procurements adding up to $44 billion. You indicated that this went to small businesses. However, your written testimony says $10 billion. Is that what you meant to say—that $10 billion of the $44 billion went to small business, or all of the $44 billion?

Mr. **Terpeluk**. $44 billion was the total for the region, $10 billion of which went to small business through unrestricted or set-aside procurements.

Mr. **Staton**. Right. OK. I had some other questions, but I am going to, in the interest of time, move along too. Thank you for your testimony.

Mr. **Terpeluk**. Thank you.

Mr. **Mitchell**. Mr. Weber?

Mr. **Weber**. Thank you, Mr. Chairman.

Mr. Terpeluk, I think you have made some very, very interesting points in your testimony. The comments that you have made about the job that you are doing, I am very, very pleased. Mr. Chairman, in the interest of time, I am going to waive any questions that I have of the witness.

Mr. **Mitchell**. Thank you very much.

Mr. Smith?

Mr. **Smith**. I would like to first begin by applauding you for that statement. It was very comprehensive and I think all of us on the committee and those in the audience do appreciate it, as well as those who will read the record.

Mr. TERPELUK. Thank you.

Mr. SMITH. In talking about the management assistance program, I would just like to underscore the importance of that program. According to SBA figures, about 92 percent of all small businesses go under because of poor management. Of course, the interest rates have, in the last year, impacted upon that percentage, but it is still poor management, that is the most severe problem.

So I would suggest, Mr. Chairman, the fact that you are seeing those same people at those conferences, means that maybe they are there because they are still doing well, and learning better management methods. I just thought I would throw that in there.

You did get into some of the intense collection efforts in your response to Congressman Staton.

Some of the past problems of the 8(a) program, and I know that there have been many GAO reports, one of which said that "Most firms view the program as an end in itself and the problem has often been with graduation." Could you, perhaps, elaborate on graduation and trying to get firms into the mainstream, so that they don't look at it as an end in itself?

Mr. TERPELUK. Well, again, I think we are going back to a general attitude type of response here. We have a goal at the SBA, and that is to carry out the true intent of the law in this program. Let us face it, the true intent of the law is to take that disadvantaged businessperson and put him in to use the Federal procurement dollars to build a foundation, to make it in this business world, and then let him go out into the real world and make it on his own, or at least get him to a point where he is bidding contracts competitively, which we have a lot of in this region, by the way, and not on an 8(a) set-aside.

We have companies in this region that are doing $30 million a year in the 8(a) programs through contracts. Now, I have a real problem with people getting $30 and $40 million a year in contracts, and I have 38,000 companies that are not even certified yet to take part in the program. I would say that person is ready to be mainstreamed.

Mr. SMITH. I would like to point out for the record, too, that often the administration is criticized for its so-called insensitivity to minority problems. I think that the facts, particularly in the SBA area, fly in the face of that. The fact that we are trying, and this committee has certainly facilitated that and worked to try to implement the GAO recommendations, but certainly the administration has seen the problem for what it is, that a few, very select few, are getting most of the contracts. Like you said, there are some 38,000 potential companies that could be included in the program. I think we have to target those companies to help them along.

I have one other question. I understand that you have requested approval to begin a small business export trade pilot program. I wonder if you could expand upon that? Have you received approval? Can you describe the pilot program for us?

Mr. TERPELUK. Yes. We have received the approval, and going back to my testimony for a minute, I stressed that the general concensus in Philadelphia is that there is a role as a catalyst that somebody could play, and I intend for SBA to play it. For you that are familiar with Philadelphia, I think we right now have about 11 agencies whose responsibilities are the ports, and the process of exporting. I believe, again, that there is a role that we can play as a catalyst there.

So what we want to do, Mr. Smith, and again this is at the planning stage, is come up with a program whereby we are going to work with the administrations in three States and we have already had preliminary meetings with Governor Caine's people and Governor DuPont's as well as Dick Thornburgh's people. We want to set up the program. We are going to get down, to use my term before, Mr. Chairman, to "a hands-on" and let us not talk about exporters. Let us end up with a result where we have the guy in the booth, that small businessman who is scared to death to export and make that connection. In turn, we are going to create the jobs that are needed here in Philadelphia, and in turn we are going to strengthen that small businessman.

It is just a start, but our hope is that the program can possibly be implemented within this year.

Mr. **Smith**. Are there any projected revenues that this will bring about?

Mr. **Terpeluk**. No, we are kicking around a lot of figures. I would rather not mention them now because there are so many personalities involved in it, but it is very encouraging. I think there is a role for us to play.

Mr. **Smith**. Again, I want to applaud you for the very activist role that you are playing in this thing now.

Mr. **Terpeluk**. Thank you.

Mr. **Mitchell**. Thank you. I would like to just indicate for the record at this point, I am for the graduation of firms from the 8(a) program. But I take a very firm position on forced graduation without any mechanism to ease these companies into the mainstream.

I call to my colleagues attention one of the witnesses we had last year, a businessman who indicated that he did not like Government programs, did not like any kind of subsidies, did not like any kind of goals. He was a true conservative, and he said "I just do not like any of this." But I want to point out to you the foolhardiness of forced graduation of these firms and his prediction was, and I agree with him, that if you proceed on this basis, after having invested all of this money in the present 8(a) firms, just to summarily dismiss them and throw them out into their jungle, we are going to lose 50 percent of those firms, and I agree, and I want the record to reflect it at this time.

Congressman Gray.

Mr. **Gray**. Thank you, Mr. Chairman.

It is my understanding that the portfolios for individual loan officers in the Philadelphia SBA office average approximately 500 loans per professional. Is that true? If so, is that not quite high?

Mr. **Terpeluk**. No, I do not believe that is true, Congressman Gray.

Mr. **Gray**. That is not true?

Mr. **Terpeluk**. I do not have the exact figure with me. If anything, sir, my assessment right now, and I am in the midst of a management review of that office, is that we are going to have to adjust, in terms of the total finance investment area and moving people over to portfolio.

Excuse me, were you talking about portfolio management or loans?

Mr. **Gray**. It is my understanding that the portfolios for individual loan officers in the Philadelphia SBA office are averaging approximately 500 loans per professional.

Mr. **Terpeluk**. No, that figure, I believe, is not correct.

Mr. **Gray**. What is the correct figure?

Mr. **Terpeluk**. I do not know if I have the exact figure here.

Mr. **Gray**. You do not have that figure? I believe the city of Philadelphia has said that there are 14,000 loans, and the portfolio for individual loan officers are high—500 loans per professional.

Mr. **Terpeluk**. I would have to check that, Mr. Gray.

Mr. **Gray**. Could you check that and, perhaps, give that back, because that seems awfully high?

Mr. **Terpeluk**. Yes, I will, absolutely.

Mr. **Gray**. I was just wondering if that figure is true, how one person can service that many loans?

Mr. **Terpeluk**. We have my figures right here, if they are correct, we have 511 loans in the Philadelphia area. I believe we have about five guys down there servicing those 511, but I would rather get the exact figure.

Mr. **Gray**. Well, I would appreciate having that information, because if it is as high as 500 loans per professional, it seems to me that it would be very difficult to have an effective job of handling those and, you know, dealing with that.

I noticed in your testimony that there has been approximately a 16-percent decline in minority loans approved in region III since 1979. Could you comment on that?

Mr. **Terpeluk**. Could you repeat that, sir?

Mr. **Gray**. I noticed in your testimony that there has been approximately a 16-percent decline in minority loans approved in region III since 1979. Can you give us some explanation as to why that trend has occurred?

Mr. **Terpeluk**. Well, why it has occurred is probably because people are not coming through the door to take advantage of the programs. Let me assure you, and in particular here in the Philadelphia district office, we have an in-house policy to treat minorities on a priority basis, and we have ample money.

So, to answer your question, I would believe that it has just been the fact that the people are not coming through the doors. The banks are out shaking the trees, but we come against Joe and Bob, especially with the guarantee program.

Mr. **Staton**. Gentlemen, would you yield?

Mr. **Gray**. Yes, I yield to my colleague.

Mr. **Staton**. I just want to point out that in our local newspaper in Charleston, W. Va., the SBA director there virtually advertised the fact that loan money was available but that they simply were not making the applications. I found that, personally, to be a little surprising, but I did check into it after that, and found that this indeed is true. Perhaps, not only for minorities, but for all business people involved, that they are simply not making the request for the loans probably because of the higher interest rate levels we are talking about.

Mr. **Gray**. Well, I appreciate the gentleman's comment and certainly, I would hope that the regional administrator might take a look at that, and give us more accurate assessment at a later date. You mentioned in your testimony that the SBA "tries to increase both the dollar value and the percentage of total awards to small businesses," through SBA's procurement center representatives. I am interested in this comment, based on a copy of a letter that I received from you regarding the Philadelphia Navy Yard. That letter indicated that out of $774 million awarded by the Navy Regional Contracting Office and the Facilities Engineering Command, only $5.9 million or 0.77 percent of the total went to minority firms. Can you shed any light on why minority businesses are not participating more in Navy contract activities? Or is that because they are not coming through the door?

Mr. **Terpeluk**. No. I would like to comment on that from two standpoints. First of all, at the Philadelphia Navy Yard, there is an awful lot of work that is fairly sophisticated. There are not many minority firms, for example, that could have bid on a $40 million aircraft deck for the *Saratoga*. All these figures that have been thrown around here all day, and when these figures are thrown around, I think you have to realize that there is a lot of work out there that a lot of small businesses cannot bid on, a good portion of some of it.

To answer your question further, Mr. Gray, I happen to have, without a doubt, the most active procurement center representative program in this Nation, and if you gave me today 35 more people and I could spread them all throughout Pennsylvania, I am here to tell you that I cannot change the attitudes of some of these departments. OK? I mean, we can go in there and fight for a piece of the pie for the small businessman, but the bottom line is, in a lot of cases, we do not have an abundance of cooperation from some of the procuring agencies, and it is just a tough thing that we are up against every day.

Mr. **Mitchell**. Would the gentleman yield for just one brief statement?

Mr. **Gray**. Go right ahead, Mr. Chairman.

Mr. **Mitchell**. One, you have Public Law 95-507. That means that the Department of Defense, the Department of Interior, nobody else is supposed to sign off on a contract unless there is a plan for the involvement of small and disadvantaged businesses, and my fear is that somewhere down the line these agencies are ignoring the law that is in place.

The second thing, you are quite right, there is agency resistance. But I think as advocates, both up here and down there, we need to bang away at breaking these contracts down so the small businesses can participate. Sure, no one is going to bid on a $40 million contract. We do not have that capability, but you cannot tell me, and nobody else can tell me—I am not venting my spleen on you—I am simply making an observation. You cannot tell me that DOD does not have the capability of breaking some of those contracts down so that small businesses can participate; it has just been a reluctance.

Mr. **Terpeluk**. They do, Mr. Chairman. I am not going to get into names here, but let me just tell you what I have done personally in this area. I have met, in the Philadelphia area, with every general and admiral in the Defense Department who are stationed here, and who are in the procurement business. I am telling you that the attitudes differ amongst one another. In some areas you get in, and they are very enthusiastic about the small businessman and they bend over backward to help me try to get my programs set up there, and they go overboard. I get phone calls like, "Can we be of any further assistance? Can we do this? Can we do that?" Consequently the procurement representative is being very successful. You go to another department and, you know, the guy does everything to preclude the smooth process of, as you say, the law.

All I am saying is, I think we have to be a little bit sensitive to the fact that SBA can only pull out so many counters when we are faced with this situation.

Mr. **Gray**. Thank you, Mr. Chairman.

Let me just say one thing, and that is that you are absolutely right, minority businesses cannot, perhaps, bid on the $40 million contract for the flight deck of the *Saratoga*, for instance. But based upon the correspondence that you sent to me, apparently small businesses are doing a great deal of the work at the Navy Regional Contracting Office and also the Engineering Command. Based on a letter that you sent to me at the end of January in regard to what I call the economic apartheid out of the total awards there were $549,204,000 out of regional contracting office, and then under small business there is $275,011,000. So almost 50 percent of the Navy Regional Contracting Office work went to small businesses. Same thing under Naval Facilities Engineering Command: $224,866,000 was the total awards for the year 1981 and out of that, according to your own figures, $197,980,000 went to small businesses. So from one contracting office, 50 percent went to small businesses and then, from the Engineering Command, 88 percent. So I find it kind of hard to justify the illustration that was used as small businesses not doing work, yet, the figures show just the opposite, that small businesses are receiving 50 percent of the awards out of the Regional Contracting Office and 88 percent of the awards out of the Engineering Command. Obviously, small businesses are getting work out of those two offices. I assume that all of it is not flight deck; there must be some plumbing, there is engineering and other stuff.

So, thus, my question still remains, that out of the entire Naval Regional Contracting Office, according to the figures that you gave to me in January, only $2.5 million went to minorities and out of the Engineering Command, only $3.4 million went to minorities. So I think it is not quite accurate to say, because there are not too many businesses that could do the flight deck, when obviously, 50 percent and 88 percent of the awards out of those offices are going, according to your office's definition, to small businesses, and I was just wondering why minorities are not getting a higher share of that.

It is a similar kind of question that was posed with regard to the city of Philadelphia and its testimony and it comes out to .77 percent or less than 1 percent. And the reason I wonder, of course, is because there is Federal legislation that mandates that this not be the case. Where at least in the case of the city, there is no such legislation. So, I was just wondering, you know, why that exists, according to your own figures.

Mr. **Terpeluk**. Well, I think I also said in that letter that we are making an effort in our restructuring of the program and instilling an attitude and maybe a few management tools, of delivering the program to the benefit of the minority community, and believe me, we are doing that.

I would like to draw to your attention, Mr. Gray, that over the past 2 years and in the first quarter of this year, the percentage of minority involvement in contracts in our procurement program has increased 1 percent each year. I would hope, through the efforts that we are trying to make, especially in terms of delivering service, that the bottom line is being to manage the program, that it is going to continue to grow.

But I also think that we have to go out. SBA can no longer—and this is what I tried to refer to with this whole notion of catalyst—be sitting up in Bala Cynwyd and wait for people to walk in the door. My people realize that the attitudes change, and we have to go out and stimulate the involvement. Whether it is a minority program or whether it is another program, we have to stimulate that.

Mr. **Staton**. Will the gentleman yield for a moment?

Mr. **Gray**. I will yield to my colleague.

Mr. **Staton**. Just to clarify for my own information, what year were those?

Mr. **Gray**. These figures are for 1981 and they were quoted from a letter that was sent to me by the Administrator in response to my concern over the fact that the Philadelphia Navy Yard, in particular, has not been providing opportunity, and they point out that the total awards for the regional contracting office of the Navy is $549,204,000, of which 50 percent of that went to small businesses, or $275,011,000. The Navy Facilities Engineering Command, $224,866,000 total number of awards, of which 88 percent went to small businesses.

So apparently, there is work that is being contracted out that goes to small businesses. I was just wondering why minorities are not getting access to that and what could be done to change that situation, in light of the legislation and the Federal mandates that are on the book, to make sure that that does occur.

Mr. **Staton**. I thank my colleague. My only concern was that these were contracts that were awarded in 1981. I just wanted to make certain of the date.

Mr. **Terpeluk**. Mr. Gray, if I may interject, there was one other point that I forgot to mention. I know a lot of your concerns have been this Navy Yard situation in Philadelphia.

We have not had a procurement representative there until recently. So I will make the commitment here to you today that the figures will change. The procurement representative has only been down here, I believe, for about 5 months, and we will definitely improve the figures.

Mr. **Gray**. I am happy to hear that there is a procurement person down there on a fulltime basis. And again, I would reiterate my concern that at a time when we are cutting back on many programs in the Federal budget, particularly the human services programs, with the hope and the expectation that there will be greater increased employment availability in the private sector that is intolerable, that these kinds of figures exist. They will not bring about economic revitalization in the private sector and provide for employment opportunities for minorities, since we do know very clearly that minorities tend to hire greater numbers of minorities. Second, it will not provide an equality of opportunity in this great Nation for all people, and I would just simply hope that there would be a strong effort by the Small Business Administration and region III, as the chairman has pointed out, that there not be a signing on contracts unless there is a clear movement, particularly when one reads these figures, which were for 1981.

Thank you, Mr. Chairman.

Mr. **MITCHELL**. Thank you. If I may for just a moment. You have been a very cooperative witness. You know, we have to be out by 12:30.

Mr. **SMITH**. I will be very brief, Mr. Chairman.

Mr. **MITCHELL**. All right. I yield to you very briefly.

Mr. **SMITH**. Thank you.

I would just like to underscore something, a revelation that has been made today, about the export trade pilot program. Subsequent to my question of Mr. Terpeluk, I would like to make a point which I believe has been largely overlooked. That is that this pilot program could have a great impact upon our region. Jobs could be created in America and in this section of the country. There are some 4,000 manufacturing plants right in the four county area on this side of the Delaware and many more on the other side, probably equal to that amount, that could take advantage of this program. We have a great opportunity to utilize excess industrial capacity here in the Northeast. I think that again this should be underscored, and one of the things that I think has been overlooked by this panel is that this is great news for this area.

Again, I applaud you for your activism and your leadership in this area. This is good for all of our districts and I am just very, very happy that you have undertaken this leadership.

Mr. **TERPELUK**. Thank you, Mr. Smith.

Mr. **MITCHELL**. I thank you also. You heard a lot of criticisms about me, but one criticism that I have not heard is that I do not have a long memory. You say, you made a commitment that there would be an improvement with reference to the navy yard.

Mr. **TERPELUK**. I sure did.

Mr. **MITCHELL**. Let me suggest to the staff that we have another hearing in 6 months and you can give a progress report and then another one. OK?

Mr. **TERPELUK**. Absolutely.

Mr. **WEBER**. Mr. Chairman.

Mr. **MITCHELL**. Pardon me just a moment. Let me just take care of a couple of housekeeping items.

We had originally scheduled lunch from 12:30 to 2 o'clock; that is too long. So it will only be 1 hour: 12:30 to 1:30; we can eat in that length of time.

The very first panel that will be up will be the banking and finance panel: that is Mr. Joseph James, Mr. Price, and Ms. Chappell. I reiterate my commitment; I have had to stay and check on a later train. We intend to try to hear every witness that is here. Now somebody wanted to be recognized.

Mr. **WEBER**. Mr. Chairman, just very briefly. Mr. Terpeluk is having trouble with the attitudes of some of these procurement officers. I wonder if we do not need an adjustment session with some of these people.

Mr. **MITCHELL**. An attitude adjustment session sounds very euphemistic to me. I would suggest rather more stringent ways. However, I just will not ignore your recommendation.

Mr. **GRAY**. Are you suggesting, Mr. Chairman, ripping?

Mr. **MITCHELL**. We will stand in recess until 1:30.

[Whereupon, the committee recessed from 12:30 to 1:30.]

AFTERNOON SESSION

Mr. **MITCHELL**. The hearing will now resume for the afternoon session. Our panel and our leadoff witnesses will be from the banking and finance community.

During the luncheon period we who serve on this committee agree that we will limit our questions to one question from each member, and that will cut down on the length of time we will hold any witness and thus enable us to hear from all witnesses.

Is Mr. Joseph James here for the banking? Mr. Robert Price? Is Ms. Chappell here?

All right. As I understand it, this will be all three of you serving on this one panel. Is that correct?

Why not start, and then when Ms. Chappell comes in, she can come right up to the table.

Mr. Price, thank you so very much for being here. We have a copy of your testimony. You have the same option as we offered to the other witnesses. You may submit it in its entirety or extract the salient points, but the entire statement will be submitted for the hearing record. Thank you very much for being here and thank you for waiting through for this afternoon.

PANEL CONSISTING OF ROBERT A. PRICE; AND EMMA C. CHAPPELL

TESTIMONY OF ROBERT A. PRICE, VICE PRESIDENT AND MANAGER, SMALL BUSINESS FINANCE DIVISION, GIRARD BANK

Mr. **PRICE**. Thank you, Mr. Chairman and members of the House Committee on Small Business, thanks for coming to our city to give the small business community its chance to express their thoughts and concerns.

Mr. **MITCHELL**. Pardon me just a moment. The acoustics are not very good in this room, and when you are talking we have some difficulty in hearing the witness. Thank you very much.

Yes, sir, if you will proceed please.

Mr. **PRICE**. Yes, sir, I am vice president and manager of Girard Bank's small business finance division. In line with that responsibility, I also serve on the Mayor's Small Business Advisory Council and the Governor's Small Business Advisory Council, Philadelphia Citywide Development Co. and also, a new SBIC that is being formed in this city, which Mr. James will speak to later.

I do not think it is necessary for me to read the entire outline. However, I would like to say that the small business finance division at Girard was established about 14 years ago and I have been manager of it since that time. When we started out, our primary responsibility was to implement and administer the Girard Bank's minority lending program. In the late sixties, most of the banks also formed their own individual units.

Today, however, we have expanded beyond just that responsibility to serve the entire small business community through our branch system, even to the point of placing representatives from my group, if you will, out into the various counties as well as in the city of Philadelphia, in locations such as Frankford, Upper Darby, and up into the lower Bucks County area.

During the past 8 years, our bank has been among the most active participants with the SBA and for the last 7 years, we have been the leading bank in the Philadelphia District in SBA loan participations.

It should be noted, however, that about 50 percent of our loans do not carry any Government guarantees, but that our review process and strategies do not differ for these transactions; we began 14 years ago with one lender. Today we have seven lenders beside myself.

First, I want to define for the record what variables we are talking about when we talk about credit conditions. They fall into three general categories: Interest rates, credit availability, and demand.

Interest rates: They are very difficult to predict, both for ourselves and the borrower. There is an increased element of risk based on the movement as well as income needed by the borrower to be able to pay the higher rates. It is, if you will, a catch-22 situation. The higher the interest rates, the more revenue must be generated to service the debt. However, historically, high interest rates precede down turns in the economy, which make the achievement of high revenues much more difficult.

The availability: In my 14 years of managing the small business loan division at Girard, I have never experienced a curtailment in available loan funds for my marketplace, either by the bank or the Government that impaired our ability to render assistance. This includes periods when our credit policy might have restricted loans to larger companies.

Demand: We are seeing fewer requests today because the rate of return a potential borrower can earn on his investment is not sufficient to warrant the investment on a risk/return analysis.

Credit worthiness is a semicorrect term: The basic problem of all small business ventures is their lack of equity capital. A larger percentage of the borrower's capital base must be debt financed. When rates are high, a lesser amount of capital needs can be realistically financed. Thus, more equity on the part of the borrower is necessary, but usually this option is unavailable to the small businessperson.

What impact has Girard observed on the small and minority businessperson in our market area? This impact, basically, could be expected to fall into two categories: The ability to meet present obligations, and the ability or need to qualify for new and additional credit.

Current customers and their ability to meet their present obligations. Certain of the customers in our portfolio are having some difficulty in meeting their monthly payments due to a combination of high interest rates, and the economy in general. The reduction in food stamp allocation, for example, has had a significant impact on the purchasing power of individuals in certain areas of our marketplace. Hence, a reduction in sales volume, and a negative impact on cashflow for a majority of our retail operators has been apparent.

To deal with this particular problem, to some degree anyway, we have set up deferment on principal payments to allow interest only payments. In some cases, we have established a fixed rate of interest for a given period of time with provisions for recapture of the differential at a later, hopefully more profitable, date. We do not want to call any loans due to the inability of a borrower to meet interest payments alone.

The ability or need to qualify for new credit: Some of our existing borrowers, from time to time, will develop a need for additional funds for working capital due to reduced sales or due to a slow down in their accounts receivable. The slow down is the result of their customers not wanting to borrow at the higher interest rates and, therefore, they use their customer's money, our borrower, for their working capital needs. If the situation warrants additional credit for short-term needs, we will certainly consider them. I will speak on this point later in my testimony.

The deferment mentioned earlier is, in effect, providing our borrowers with some additional funds to handle other working capital requirements.

I would like to think that our lenders, myself included, have always been cautious in our credit process and have been willing to consider any reasonable request. This philosophy continues today, but perhaps with more imaginative elements, such as utilizing the various grant and loan programs available that may better fit individual situations. This method can help spread the rate, if you will, with the high and low. By that, I mean the lower interest rate being available from one of the local organizations or other lenders, and the higher rate which we have to charge. That together, hopefully, gives an overall break in the interest rates.

If I had the opportunity to make a suggestion regarding what I see as a need and a possible program to be considered by the SBA, it would involve lines of credit for new and growing businesses. What currently exists, lines for contractors and seasonal lines, is not adequate in my opinion. The loan programs currently available by the agency deal primarily with the long-term requirements of a small business, but the short-term working capital needs are just as critical and usually cannot be met under conventional methods because of the limited equity of the entrepreneur. I have suggested, as have many lending officers, that this area is one that needs less study and more action.

In closing, I feel that our bank is continuing to emphasize our interest in, and desire to serve, the small business community in our marketplace. To this end, we have positioned a specialist in small business lending in general and SBA lending in particular, in three strategic locations. Plans are being formulated to locate two in additional areas of the city. Through this strategy, we hope to enjoy our eighth year of highest recognition by the SBA, as well as maintain our good reputation with various State and local agencies.

Thank you.

Mr. Mitchell. Thank you very much.

[Mr. Price's prepared statement follows:]

PREPARED STATEMENT OF ROBERT A. PRICE, VICE PRESIDENT AND MANAGER, SMALL BUSINESS FINANCE DIVISION, GIRARD BANK

Mr. Chairman, members of the House Committee on Small Business, my name is Robert A. Price. I am vice president and manager of Girard Bank's Small Business Finance Division.

The Small Business Finance Division at Girard was established on April 1, 1968, and I have been its manager since its inception. Our primary responsibility was to implement and administer Girard's minority lending program. Through the years, we have participated with a number of agencies at local, State and Federal levels. The strong relationship we enjoy with the Small Business Administration has been in existence since that time. During the past 8 years, our Bank has been among the most active participants with the agency and for the last 7 consecutive years, we have been the leading Bank in the Philadelphia District in the area of loan guarantee activity. But, in addition to the SBA, we have various contacts with other sources of funding and/or guarantees, namely, Minority Small Business Investment Corporations (MESBIC's), Philadelphia Citywide Development Corp. (PCDC), Philadelphia Industrial Development Corp. (PIDC), Pennsylvania Minority Business Development Authority (PMBDA), and various others. These agencies will provide either subordinated debt and/or direct grants to the entrepreneur, depending on the circumstances. It should be noted, however, that about 50 percent of our loans do not carry any government guarantee, but our review process and strategies do not differ for these transactions. We began with 1 lender; we, today, have 7 lending officers besides myself.

I want to spend just a few minutes analyzing the impact of today's credit conditions on small and minority businesses in the Philadelphia area. I will be speaking, as you would expect, from the standpoint of a commercial banker.

First I want to define for the record what variables we are talking about when we talk about "credit conditions." They fall into three general categories: interest rates, credit availability, and demand.

1. *Interest rates.*—Very difficult to predict both for ourselves and the borrower. There is an increased element of risk based on movement as well as income needed by borrower to be able to pay the higher rates. A "catch 22" situation: the higher the interest rates, the more revenue must be generated to service the debt. However, historically, high interest rates precede down turns in the economy which make the achievement of high revenues much more difficult to achieve.

2. *Availability.*—In my 14 years of managing the Small Business Loan Division of Girard, I have never experienced a curtailment in available loan funds for my market, either by the bank or the government that impaired our ability to render assistance. This includes periods when our credit policy might have restricted loans to larger companies.

Demand.—(a) We are seeing fewer requests because the rate of return a potential borrower can earn on his investment is not sufficient to warrant the investment on a risk return analysis. (b) Credit worthiness is a semi-correct term. The basic problem of all small business ventures is their lack of equity capital. A larger percentage of the borrower's capital base must be debt financed. When rates are high, a lesser amount of capital needs can realistically be financed. Thus, more equity on the part of the borrower is necessary, but usually this option is unavailable to the small business person.

Now that we have defined the prevailing credit environment, what impact has Girard observed on the small and minority business person in our market area?

The impact basically could be expected to fall into two categories: the ability to meet present obligations; and the ability or need to qualify for new credit. Our experience in each of these areas is as follows:

1. Current customers and their ability to meet their present obligations—certain of the customers in our portfolio are having some difficulty in meeting their monthly payments due to a combination of high interest rates and the economy in general. The reduction in food stamp allocation, for example, has had a significant impact on the purchasing power of individuals in certain areas of our market place; hence, a reduction in sales volume and a negative impact on cash flow for a majority of our retail operators has been apparent. To deal with this particular problem to some degree, we have set up deferment on principal payments to allow interest-only payments; in some cases, we have established a fixed rate of interest for a given period with provisions for recapture of the differential at a later date. We do not want to call loans due to inability to meet interest payments, alone.

2. The ability or need to qualify for new credit—Some of our existing borrowers from time to time will develop a need for additional funds for working capital due to reduced sales or due to a slow-down in their accounts receivable. The slow-down is the result of their customers not wanting to borrow at the higher interest rates and, therefore, they use our customer's money for their working capital needs. If the situation warrants additional credit for short-term needs, we will certainly consider them. I will speak on this point later in my testimony. The deferment mentioned earlier is in effect providing our borrower with some additional funds to handle other working capital requirements, i.e., help offset the cash flow squeeze.

The demand for loans by new borrowers either starting a business or taking over an existing business has decreased over the past few years. The "proposals" are more detailed and the loans, generally speaking, are for larger amounts than they were five to ten years ago. The applicants are generally divided into two areas:

1. The Real. Some are more experienced and probably more knowledgeable of a particular business because they have either worked in the business or have been able to gather the right "team" to counter any area they themselves are weak in.

2. The Ideal. The driving force behind this individual is his dream of being in business, being his own boss. The means toward this end are relatively unimportant to him. He is unable to fully assess the impact that high interest rates will have on his ability to succeed.

I would like to think that our lenders, myself included, have always been cautious in our credit process and have been willing to consider any reasonable request. This philosophy continues today, but perhaps with more imaginative elements, i.e., utilizing the various grant and loan programs available that may better fit individual situations. If I had the opportunity to make a suggestion regarding what I see as a need and a possible program to be considered by the SBA, it would involve lines of credit for new and growing businesses. What currently exists, lines for contractors and seasonal lines, is not adequate in my opinion.

The loan programs currently available by the agency deal primarily with the long term requirements of a small business, but the short term working capital needs are just as critical and usually cannot be met under conventional methods because of the limited equity—investment—of the entrepreneur. I have suggested, as have many lending officers, that this area is one that needs less study and more action.

In closing, I feel that our Bank is continuing to emphasize our interest in and desire to serve the small business community in our market place. To this end, we have positioned a specialist in small business lending in general and SBA lending in particular in three (3) strategic locations—Upper Darby, Frankford and Bucks County—in order to better serve our customers and prospects. Plans are being formulated to locate in two additional areas. Through this strategy, we hope to enjoy our eighth year of highest recognition by the SBA as well as maintain our good reputation with various state and local agencies.

Mr. MITCHELL. I have been calling you Mrs. Chappell.

Ms. CHAPPELL. Chappell.

Mr. MITCHELL. All right. I wanted to be correct.

Has Mr. James gotten here as yet? This was supposed to be a panel. What I thought we would do is we would hear from the entire panel and then go for questions.

Yes, Ma'am. We have a copy of your testimony.

TESTIMONY OF EMMA C. CHAPPELL, VICE PRESIDENT AND MANAGER, COMMUNITY BUSINESS LOAN AND DEVELOPMENT DEPARTMENT, CONTINENTAL BANK, PHILADELPHIA, PA.

Ms. **Chappell.** All right. Thank you, Mr. Chairman.

My name is Emma C. Chappell. You will have to excuse my voice a little bit, I practically have laryngitis today. Maybe I am not supposed to speak, but anyhow, I am vice president and manager of the community business loan and development department of Continental Bank here in Philadelphia. My department has a broad range of experience and a large portfolio of active accounts in the small business community.

In addition to my current duties and responsibilities at Continental Bank, in the early seventies, I served as president of the Job Loan and Urban Venture Corporation. The Job Loan and Urban Venture Corporation was a public-private venture to stimulate the development of minority-owned firms. Consequently, my testimony spans more than 13 years of specific related experience to small- and minority-owned businesses, many relying on the Small Business Administration, as well as more than 20 years of commercial banking experience.

We are all well aware that the SBA began during the days of World War II as an effort to provide small businesses an opportunity to serve the country in the manufacturing of items required for the war effort. Over the years, legislative authority has sought to make the lending and servicing program of the SBA an integral part of the U.S. economy. For this effort, U.S. legislators are deserving of just recognition.

However, as we enter the decade of 1980 and look beyond, I believe we should all see, with a sense of greater urgency, the importance of the Small Business Administration to small businesses to insure their continued existence.

Financial institutions are not wedded to hometown markets. The pressure for profit encourages commercial lenders to obtain business in markets likely to meet management's profit goals. As consequence, small business owners are in competition for debt capital on a national basis and, in some instances, internationally. The drive for increased productivity and lower inflation cannot be accomplished without full participation of small business. Small businesses need to modernize. In Philadelphia, we desperately need more and more small business startups. My use of startups is really directed at a well thought out acquisition program that might, perhaps, dislodge absentee-owned businesses managed by bank trust departments into the hands of small business owners.

Furthermore, Mr. Chairman, a major problem in the capital system is the lack of workable programs and, if I might add, definitions within the Federal Reserve for small business. A glaring example of this occurred during the Carter administration's credit constraint program. Despite the exemptions planned for small business in the Carter program, the Federal Reserve bank was unable to implement or monitor the implementation of these exemptions.

It has been reported that the Federal Reserve System controls approximately 80 percent of all bank deposits. This resource must be accessible to small business. Additionally, the rapid growth of money market funds that are largely outside of regulatory influences have the effect of reducing the amount of capital available to small business firms.

The issue of capital cannot be over emphasized. While some banks have engaged in the formation of nonprofit community development corporations, this approach does not offer a long-term solution, in my opinion, for small business that will guarantee its continued existence.

There is substantial evidence that most new jobs are created by small business firms. We are reminded daily of rising unemployment and the need to create new employment in most of our major cities. The role of small business in this process demands that we apply our imagination and creativity in an effective manner and not merely point the finger or attempt to assign blame.

In closing, I hope that these proceedings and others will strengthen existing programs and hopefully develop ideas for new approaches, to ensure real opportunity for capital for small business. If you have any questions, I will be glad to answer them.

Mr. MITCHELL. Thank you very, very much for your testimony, for both pieces of testimony.

Mr. Staton, will you lead off with questions, please?

Mr. STATON. Thank you. I would like to direct one question to Mr. Price.

Mr. Price, taking a look at interest rate spreads over the rate of inflation and the prime rate, it has been a historical phenomenon, a rule of thumb, if you will, that there has almost always been about a 3 percent difference between the real interest rate and the nominal interest rate. Last year's inflation rate annualized in December was 9½ percent, but yet, as of today, even though inflation has continued to decline, we see an interest rate, a prime interest rate of 16½ percent. This is not a spread of 3 percent, but a spread of 7 percent. I cannot think of anything that would help small businesses more than having a lower prime interest rate as it would increase access to capital, which we have heard stated so eloquently this morning.

Now, Girard Bank is not a small bank like some we have in West Virginia, which are small country banks. The Girard Bank is a trend setting bank, and I would just like to ask you to expound a little bit, if you would, on why you believe this 7 percent or more spread exists between the rate of inflation and the prime rate.

Mr. PRICE. Well, Mr. Staton, I guess I have to "cop out" a bit; I am a lending officer; I do not set bank policies. I certainly do not set national policy. Everybody is back with the same point, rates are high, rates are high. Rates are high for all businesses, whether you are small, large, minority or not minority.

If I could answer the question as to why the rates are high and how we could get them down, maybe we would swap chairs. I am not quite sure, and I am not trying to be facetious at all, but I keep getting this thrown up to me, that the rates are high, the rates are high. I agree they are and they certainly do hurt. Believe it or not, when I have to tell a customer that his interest rate is up a point or up a half a point, I do not go around smiling about it. I am very upset about that. I wish there was something that we could do.

But, you know, I cannot even comprehend that I could come up with a solution.

Mr. **Staton**. We were going to limit ourselves to one question each in the interest of time. But let me followup on what you have said. I understand your answer. However, has it occurred to you that perhaps there is an artificial premium that is causing this rate to be held up? How would you respond to that?

Mr. **Price**. What do you mean by "an artificial?" I am lost.

Mr. **Staton**. The fact is that we have a prime interest rate that is traditionally only three points over the rate of inflation. Like I said, a rule of thumb, that has always been followed in most times. We do not have that phenomenon today. It is an aberation, if you will, but I am asking you as a lending officer have viewed the banking business for many years, and you have obviously been involved in this, do you feel that there is an artificial percentage in there? A premium, if you will, which is waiting on some further action.

Mr. **Price**. I guess there could be. I really do not know. I would not want to dispute you on that, because it may well be, you know, that maybe the word "inflation" is in there twice, or some such thing. I am not quite sure.

When you mentioned Girard being a trendsetter, I wish there were some way that we could—well, I do wish and I do not wish that there were some way we could come out with a dual rate which might also be helpful. But we really cannot do that when we have to pay out 15, 16, 16½ percent, with instruments that are sold by our bank to investors out there. So if the hidden ingredient is artificial, as you stated, then I will not disagree with that.

Mr. **Mitchell**. Mr. Weber.

Mr. **Weber**. Thank you.

Mr. Price and Ms. Chappell, we have listened to some rather discouraging statistics on a number of bankruptcies during the past year or so. As you look at those figures, what is the primary reason, can you tell us, for most of the business failures during this past year in your judgment?

Mr. **Price**. Well, when I mentioned to you before that we would not want to call a loan, pull the plug, if you will, strictly from the standpoint of interest alone. I was very serious about that, and I think Emma would agree with that point.

I would say that over the past couple of years, if you had to phrase it, you would say the economy in general. But it is also in the area that all costs are up. You know, the interest rates are up, energy costs are up, competition is a little stiffer. I would also say that a lot of our problems to this day stem around the fact of management expertise. That is a term that has probably been beaten pretty badly and you all probably have heard it as much as anybody. But from where I come from, the lack of management expertise is a strong point. I think, when you talk about the bidding wars, if you will, that go on, or lack of wars because a lot of small and minority businesses do not get a shot at them, there are probably fewer contracts, more competition out there, and that definitely hurts.

I have nothing more.

Ms. Chappell. I would just add to that, to reiterate what I mentioned before and that is that capital formation is No. 1, in my view; a No. 1 problem affecting the small business. I agree with what Bob said, in that the lack of management expertise, is second. Although I know there have been some statistics that say "most businesses fail because people do not have the management skills," I still believe that the majority fail because of the lack of access to capital. The fact is that if you had the money and an appropriate cashflow, you could pay for some management expertise. You could bring in an administrator or a person to help run the business, so it all boils down to that.

Mr. Weber. Thank you.

Mr. Mitchell. I was just making a little aside to my friend here on management skills, speculating about the management skills of Chrysler Corp.

Mr. Price. Good example.

Ms. Chappell. That is a good example.

Mr. Mitchell. Last year at the urging of the Small Business Administration, a change was made in the bank loan guaranteed loan program in which we changed it from the traditional 90 percent guarantee down to a 70-percent guarantee, depending upon the size of the business and so forth. The size of the loan, rather. I believe that that new policy has been in effect for about a year now. There was one proposal to move it all the way down to a 50-percent guarantee and we have heard from the banks, loud and clear, saying "No way."

My specific question is, what, if any, has been the impact of this change, where we shifted from the historical 90 percent guarantee to a two-pronged guarantee, down to 70 percent up to 90 percent? Has that had any impact on your business?

Ms. Chappell. I would just say that with the lesser percentage of the guarantee, the banks make fewer and fewer loans, on the real side. They take less chances because they are much more vulnerable with much more riskier type situations.

Somebody could argue, "Well, they all want 90 percent." But do not forget, the banks are not in the venture capital business, that very often, if you really have to get a business started, and particularly a new business, as I mentioned in my statement, it would be considered a venture capital deal. Particularly in this area, as was brought out earlier, we do not have any organization, or many organizations providing venture capital. Then the banks have to fill that gap, and consequently, they cannot do it with a great amount of risk.

Mr. Mitchell. OK. Mr. Price?

Mr. Price. I must admit I am a little embarrassed. When you say we have gone from 90 to 70. Is that cast in stone? I have seen nothing in writing that has come to me that says "The SBA wants the bank——." In the past, we have always been, or for the most part, with some of our transactions, we have always been in a lot of negotiating with the agency to reduce the amount of the request to make it more palatable to them. If you are saying to me "Will we cut back the number or activity or our action in the small business community," if it does become cast in stone, I would say to you, no, that as a matter of fact, to this day, a lot of my peers and I guess some of my bosses at the bank probably think from time to time that I am that venture capital lender. Or a venture capitalist.

But in any event, I think the way that we have restocked our shelves, if you will, with lenders, indicates to me anyway that we certainly are not planning to lessen our activity. Quite frankly, I do not think it is that bad an idea that they cut back from 90 percent to 80 or 75 or whatever that number is, because I think that some of the banks who participated with the agency over the years have done so, and probably taken advantage of them. I am not going to throw rocks at the banks, because I love them all. But, no, from where I am coming from, we may look a little bit harder, but at the same time, if we become a little more selective, based on the information that Mr. Terpeluk made available this morning, I do not know that it is that bad an idea. I would not think that it would be a real big thud out there myself.

Mr. MITCHELL. Well, let me just—and I am not asking a question, because I am limited to just one question. As I understand it, the policy that was developed last year was up to $100,000, and 90 percent guaranteed, and anything above $100,000 was discretionary, 70 to 90 percent. That is locked in place; I am amazed that you have not heard about it.

Ms. CHAPPELL. We have not been notified.

Mr. MITCHELL. That is kind of amazing.

Mr. STATON. It makes you feel like we are wasting our time a little bit.

Mr. MITCHELL. Yes, it does.

Ms. CHAPPELL. I would venture to say that we do, between the two of us, most of the lending in this area.

Mr. MITCHELL. Use your mike, please.

Ms. CHAPPELL. We have not been notified and I would venture to say that between Bob and myself, we do most of the small business loans in this area.

Mr. MITCHELL. Might I suggest that you check with the administrator for the region, because that is policy now. I think you certainly should know about it.

Mr. Smith, you got in late, do you have a question?

Mr. SMITH. No questions.

Mr. MITCHELL. Thank you very much. I ask, however, that you give us a 24-day grace period, in case we do have additional questions. Can we submit them to you in writing?

Mr. PRICE. Absolutely.

Ms. CHAPPELL. Feel free.

Mr. MITCHELL. Thank you very much.

Is Mr. Regan Henry here, or someone representing him? Or is Mr. Waverly Easley here, or someone representing him?

All right. If not, we will go to our next panel, which will consist of Mr. Ruben Bumpus, Mr. Roy Ellison, Mr. H. Rick Kline, and Mr. Elmer Fike; if all four of those persons will come down, we will take all of your testimony first and then get into questions. Mr. Bumpus, Mr. Ellison, Mr. Kline, and Mr. Fike.

I would like to yield to our distinguished colleague, Mr. Weber, from Ohio to introduce one of the members of the panel.

Mr. WEBER. Thank you, Mr. Chairman. It is my pleasure to introduce Mr. Ruben F. Bumpus from my city of Toledo, Ohio. For the last 17 years, Mr. Bumpus has been engaged in the business of general contracting and specializing in commercial and industrial construction. He is a member and past senior vice president of the Northwestern Ohio Chapter of the Association of General Contractors. He is a past president of the Plumbing, Heating and Cooling Contractors of Northwestern Ohio. He is a member of the board of directors of the Toledo Area Small Business Association, a member of the board of directors of the Toledo Area Chamber of Commerce, chairman of the committee of the Maumee Valley Carpenters, Joint Apprenticeship Council as the management representative to that committee, and is chairman of the board of control of the building division, Toledo, Ohio, plumbing and steamfitting inspection department.

So, Mr. Chairman, I am very happy that we can have with us today Mr. Bumpus speaking to us from Toledo, Ohio.

Mr. MITCHELL. I thank you for letting me know too late about those impressive credentials. Had I known, I would have been much more deferential to you when we were having lunch; I was unaware of that.

Mr. Staton.

Mr. STATON. Mr. Chairman, it is my pleasure to welcome to the hearing today a gentleman from my district that I met many years ago when I first moved to the Charleston area. Mr. Fike is a nationally known syndicated columnist. He has, I believe, an attachment here of some of his columns. Mr. Fike is in the chemical business and has testified before numerous congressional committees on such topics as the Toxic Control Act and other such business before the Congress and he is no stranger to these hearings. I am looking forward to hearing his testimony and we are happy to invite you here and have you here, Elmer.

Mr. SMITH. Mr. Chairman, I would like to introduce to the panel and to the audience here, H. Rick Kline, of Kline Valuation Services from Trenton, N.J. Rick is the president of the Society for Real Estate Appraisers, Delaware Valley Chapter, and has been very outspoken in our State on behalf of these causes. He is also a residential member of the American Institute of Real Estate Appraisers. He is very knowledgable on the subject and has been sought out repeatedly by local officials for his opinion. He has been very active on the real estate boards, as I mentioned, and has been an adviser to me since I have been in Congress.

PANEL CONSISTING OF RUBEN F. BUMPUS; ELMER A. FIKE; AND H. RICK KLINE

Mr. MITCHELL. Gentlemen, with those introductions, I feel a little overawed. Would someone else want to chair this panel?

While I have the opportunity, I do want to thank the university for providing us with lunch. Most of the Members of Congress either do not eat lunch, or we have a very spartan kind of lunch. We had an excellent meal today, and I am grateful to the university.

Mr. Bumpus, would you lead off, please?

TESTIMONY OF RUBEN F. BUMPUS, GENERAL CONTRACTOR SPECIALIZING IN COMMERCIAL AND INDUSTRIAL CONSTRUCTION, TOLEDO, OHIO

Mr. BUMPUS. Yes; Mr. Chairman, committee members, originally Harry White was scheduled to be here, but other pressing issues kept him from coming. So I am actually appearing here in his stead. So seeing as I have come so far, I would like your indulgence so I can read my statement in its entirety.

Mr. MITCHELL. No problem.

Mr. BUMPUS. One of the greatest problems facing our economy as a whole is inflation. The capital needs a small business constantly faces is critical, not only from the inflationary standpoint, but it also increases the cost of meeting it. A major problem caused by inflation is cashflow. Most small businesses borrow regardless of the inflation rate, but inflation takes a difficult problem and makes it acute. Inflation not only elevates the cash needed, but requires its financing at higher interest rates.

Small business in northwest Ohio must have lower interest rates to reverse the eroding economic conditions. That was the unanimous opinion from the officers of seven firms ranging in size from 15 to 150 employees contacted at random last week for their views on the economic outlook for small businesses.

The level of business of 6 of these 7 companies had fallen off, forcing the layoff of more than 500 employees of these firms. At each of the companies where layoffs were necessary, high interest rates were blamed for deteriorating business conditions.

The actions of the Federal Reserve Board on mandating policies and its direct result—the interest rates—exerts a strenuous force upon small businesses. Therefore, the next appointment to the board should be someone from the small business community.

Congress should exercise its oversight function with the assistance of the General Accounting Office, instituting sunset reviews of all laws, regulations and agencies to insure that none exceeds original congressional intent. Sunset reviews in its appropriate timeframe, not less than every 5 years, should include economic impact analysis and proposed agency budget reductions, leading to reenactment of each agency's enabling legislation to permit it to continue its existence or to reduce its size and cost. Establish a regulatory review board, composed of representatives from the executive branch, Congress and small business owners with responsibility of impact statements and cost controls.

While there is general agreement that the Federal Government does have legitimate requirements concerning the area of environmental quality, occupational safety and consumer protection, the failure of the Federal agencies to assess properly the economic impact of their regulations on small business—that larger firms are able to escape—has been great. Large firms have at their command a myriad of resources, lawyers, accountants, and bureaucratic organization that enable them to absorb the impact. The small firm possesses none of these advantages.

All regulatory policies should have categories, and without retreat on regulatory objectives. There should always be consideration of cost and reporting requirements for the small firm; by treating large and small alike, one treats them differently.

Small business must share a disproportionate amount of the regulatory impact. Small business has neither the financial nor the human resources available to big business to examine, understand, and fully comply with the precise obligations imposed by the regulators. This also exposes the businesses to a greater risk of fines and penalties for violations of rules and regulations it may never fully understand.

Duplicative and often conflicting requirements are imposed on businesses by agencies at the Federal, State, and local levels. Thus when examining the burdens of regulations, it is necessary to consider combinations of all regulations as impacting on the small business community. An example is the Trade Adjustment Act of 1974. The purpose of this act was to determine whether increased imports have contributed importantly to an actual or threatened decrease in employment, and to a decrease in sales or production at the person's place of work. While the intent of the law, as administered by the U.S. Department of Labor, has merit, the resultant paperwork generated for the employer is voluminous and excessively time-consuming. One wonders if all this statistical data is necessary, to be obtained by the small businessperson to possibly extend the unemployment compensation.

The Federal Government serves many valuable functions which the States, as individuals, would find difficulty with, if not impossible, to correlate and directly administer for the general good of all the States. This I think it quite clear and is not arguable.

It would appear that we could agree that certain functions which were originally States should be performed by the Central Government due to their diverse nature and their overlapping various and sundry jurisdictional boundaries. One such program I strongly feel should remain with the Federal Government, and perhaps even be embellished upon is the Comprehensive Employment and Training Act. As a member of the Private Industry Council for CETA, I have found this program of local level prime sponsorship to have exerted an immeasurable benefit to our overall community in both delivering employment and in training.

Some have proposed that there should be large conglomerates overseeing multiple political jurisdictions. It would seem, in my opinion, to be disastrous, unthinking, and probably would serve to totally eliminate meaningful and effective continuing implementation of the needs of each community. There have been some abuses of this program by unscrupulous or unthinking individuals, as is the case with any program. However, we should attempt to negate the negative aspects and enlarge upon what has been so positively beneficial.

Along these same lines, some surety of a continuing funding formulation should be instituted to insure that local systems, such as ours, would at least have a minimum administrative capacity to allow for the continuing and efficient deliverance of services for our community and many others like ours. Federal employment and training policies should be refocused to support and compliment the role of private business in providing jobs and training. Business must have a strong role in the design and delivery of employment and training programs. Federal control over employment and training programs must be reduced and delivery systems streamlined to permit flexible, comprehensive local planning. Program flexibility is needed to respond not only to today's work and training problems, but also to changed economic and labor force circumstances in the future. Some areas of consideration which could exert a positive influence: One, set up a means where small businesses could obtain operating capital and research and development money on a long term basis; two, tax abatement and tax credit for startup job producing businesses; three, set up a coordinated meaningful program to teach small business the total financial aspect of business, from the meaning of financial statements to budgeting. There are various programs now in existence, but they lack the depth and ability to follow through, and four, set up a network to find products that large businesses are going to stop producing, because the product no longer generates enough sales at their level. A new or ongoing small business could capitalize on this product at a level where it would be a viable business. Several examples come to mind. Good corncob pipes and leather gloves are no longer produced in America, but are produced in Italy. Australia and Japan and many foreign countries now produce low volume goods at a large profit. The large companies' spinoffs of these products already have the machinery and the people. Not only would this save jobs, but it would aid in the balance of the trade.

I am looking forward to your continuing favorable consideration of these unselfish positions, as you develop and enlarge upon the future of this country in the areas of employment and training policy for the small business. Thank you very much for permitting me to share with you and perhaps establish some positive insight from the local level.

Mr. MITCHELL. Thank you very much. It is quite interesting that we have gotten good hard specific recommendations to study.

Mr. Fike, if you will. We will hear from all three witnesses and then have questions. I believe our next witness is Mr. Fike.

TESTIMONY OF ELMER A. FIKE, PRESIDENT, FIKE CHEMICALS, INC., NITRO, W. VA.

Mr. FIKE. I would like to submit a written testimony, which I have, and I have extra copies for anyone that would like to have them. And inasmuch as Mr. Staton has already introduced me, I will just go ahead and omit my introductory comments, but I would like to add a couple of other comments as I go along.

Mr. MITCHELL. Well, of course, your entire statement will appear in the hearing record.

Mr. FIKE. I would like to make one comment at the very beginning. I did not realize the interest there would be in the minority problems, but I think I have a comment that I would like to make at the risk of getting not only the Congressmen that are present mad at me, because of my statement, but also other people who are here too.

But I would like to relate to you my experiences as delegate to the White House Conference. The minority people at our convention were pretty sharp and they taught us a thing or two about politics, and they ended up electing a third of our delegation as minority members. Well, we learned something, I will tell you that.

But anyhow, when we went to Washington, at first we thought that there was going to be two groups, the minority group of our delegation, and the other group. We started out that way, but as we went along, we found that most of the issues we had very uniform feelings about. We found out that as businessmen we are all minorities: Businesswomen and businessmen. We found out before the week was over that what is good for business is good for the country and it is also good for the minorities.

So by the end of the week we were meeting together, working together toward pretty much the same objectives and with virtually no difference of opinion.

I have come to the conclusion that in spite of all the talk of gloom and doom that we hear about the business conditions today, that there are more opportunities than ever for the small business. This is because big business is finding it more and more difficult to adapt to the situations and small business can do that if they will. The problem is that there are so many stumbling blocks for us that make it difficult, like interest, financing, regulations, and the adversary role of Government.

However, if my own experience is typical—and many other small companies in my area have more business than they can possibly handle—I believe that if we will find our niche, then go out and work to offer the customer what he wants at a competitive price, the business is there. We should spend less time on trying to figure out how to get handouts from the Government and try to find out what the customer wants and get a handout—an order—from them. I think that is the way we have to go.

The White House Conference in 1980—I am back to my prepared script now—did a monumental job in defining the problems of small business and recommending solutions. Some of those recommendations have been implemented. Others that have not, should be considered and acted upon where appropriate. Also, oversight hearings should be held to see that there is compliance with those laws that have been enacted.

High interest: Probably the most serious problem facing small business is the high interest rate. Anything that will reduce interest rates over the long period is very important, but short-term fixes are not in the best interest of anyone, as they result in higher interest rates in the long run. One of my columns, exhibit number one, explains this.

Inflation: A major cause of high interest rates, has been reduced substantially, but the anticipated budget deficits, with the anticipation of further inflation, I believe is still a major cause of high interest. Therefore, the deficit must be cut in every way possible; nonessential spending must be cut. We must separate our essential needs from our desirable wants and return to basic Government requirements. This means funding of the arts and humanities, and similar expenditures must be cut to the bone or eliminated. Nonproductive efforts such as Federal aid to secondary education should be critically examined, inasmuch as academic achievement has been dropping ever since this program was begun in the early sixties.

The Department of Energy is another program of highly questionable value.

It will take courage on the part of Congress to make these cuts, but it should take less courage than it does to face the many small business people who are going broke because of high interest rates.

Entitlement programs are growing at an unconscionable rate, and must be slowed down; one simple measure would make a substantial cut in social security, which is the biggest of all. This would extend the income cutoff for social security from earned income to all income. This would not adversely effect the poor, but it would eliminate the double and triple dipping, and welfare for the rich that is so pervasive under the present system. Also, a more realistic base for the cost of living adjustment should be written for the social security increases.

Fraud and other abuses in Government welfare programs must be stopped where possible. One way that would help would be to make welfare payments a matter of public record. If wages paid public employees who work for their wages are publicized, why should not welfare payments be subject to the same scrutiny?

Cuts in Federal spending and entitlement programs will require a sacrifice on the part of many people. That sacrifice might be more palatable if the leaders of our Government started by taking a cut themselves. Now I am making the Congressmen unhappy with me. I would suggest a 10 percent cut in salary and expenses for all Federal employees above some limit, say $40,000; exhibit 4 goes into this in detail. A substantial cut in the funding of Congress would also show good faith and lead the way so that others would be willing to accept their cuts.

Small business people are willing to share in the cuts. Most that I have talked to would agree to substantial cuts in the Small Business Administration.

I would like to add one comment here. I think it is interesting to note that Mr. Lovett, our chairman at the White House Conference, made a statement that I think spoke for all of us. He said, "We did not come here to get more. We came to get less." I think that is a very important concept.

When we consider the cost of Government in real dollars, it is more than double what it was 20 years ago. It is inconceivable that we cannot cut enough to achieve a balanced budget. A recommitment to the 10th amendment might be the best prescription, and I wrote a column on this, exhibit 5.

Access to capital: Next to high interest, access to capital is of second highest priority for small business. In order to improve this situation, savings and loan regulations might be liberalized to permit their making commercial loans, and thereby increase competition in the lending markets.

Also consideration should be given to the establishment of a small business bank, similar to the Farm Credit Banks which were created in the thirties to resolve the same kind of financial problems that small businesses face today. While small businesses generally oppose Government intrusion or funding, a small amount of seed money to be repaid, same as it was in the Farm Credit Banks, might be acceptable and other types of private funding could be made available, and I have discussed this in exhibit 6.

Regulatory burden: This cancer on American business has grown since 1970 to the point that it now costs $130 billion per year and this is a cost of over $400 per capita, and that must be passed onto the consumer. It is no wonder that Detroit can no longer compete with Japan or that many small businesses, which have more than their share of this cost, are going broke.

The problem can be eased without adversely affecting the desirable and beneficial results of regulation. A more cooperative and less adversary approach to enforcement must be sought. In line with this, no civil enforcement action through the courts should be brought by a regulatory agency until all voluntary efforts for compliance have been exhausted. In exhibit 7 I gave a really sad story about that situation.

Regulatory action should be reviewed more frequently and objectively by Congress to be sure that it is achieving the desired goal at an acceptable cost. Also, the legislative veto of regulations should be included in the rulemaking process to be sure that the rulemaking is more responsive to the public. Admittedly, this puts an extra burden and responsibility on Congress, but that is what you asked for when you ran for office.

This schedule for regulatory flexibility passed by Congress in 1980 should be speeded up. This important act appears to have been given more lip service than action. The proliferation of regulations at the local and State level is becoming an ever-increasing burden on small business and a restraint on free trade. Pesticide producers must register their product in nearly every State in addition to Federal registration. Many proposed local laws will require different labeling requirements in each market. Perhaps the large company can comply, but at an increased cost. The burden on the small company is considerably greater in proportion to its size.

It is not uncommon for States and the Federal Government to have conflicting, or at least different regulations, with regard to safety or environmental matters. This requires an extra burden in reporting and compliance. If the Federal Government is going to legislate in a certain area, then the preemption of State or local legislation should be considered.

Competition: The Congress continues to fund many organizations that compete with small businesses: university research, analytical, and consulting services are just one example. Elimination of the funding of organization that compete would help reduce the budget and stimulate small business at the same time.

Product liability: Insurance to cover product liability is, over the long run, becoming increasingly expensive and hard to obtain. The cost for small business can often be as high as 2 to 3 percent of the gross and often equals or exceeds the total profits of the company. As most companies sell in interstate commerce, this is a problem that should be resolved at the Federal level. Tort law reform is essential to the long-term solution. The Department of Commerce has developed model legislation that should be considered and adopted.

One problem that makes action necessary is the growing number of suits brought in the case of death due to cancer, and this is just one example. One situation that I wrote in exhibit 8 is the suit filed against 200 chemical companies that supplies the employer of

1 cancer victim and whose death may not have even been work related. Nuisance suits of this type which have little or no basis, filed mainly with the hope of out-of-court settlements, can cost the employers untold millions, which can only go into the cost of goods, and passed onto the consumer.

The model legislation written by the Commerce Department would presumably restrict this type of suit and if not, legislation should be considered that will do so.

Davis-Bacon Act: Repeal of the Davis-Bacon Act was a high priority recommendation of the White House Conference. By setting unreasonably high wage rates on Government contracts, the cost to the Government is inflated by at least $2 to $3 billion a year; repeal would have a substantial effect on the deficit.

In addition, the Davis-Bacon Act discourages hiring of minorities. When a contractor's wage rates are set by the Davis-Bacon Act, he can only compete if he hires the most skilled workers. He is therefore precluded from hiring relatively unskilled minorities, or the young, with on-the-job training, bringing them up to the competency necessary for higher wages. According to the minority members of the West Virginia delegation to the White House Conference, the Davis-Bacon Act seriously restricts the hiring of minorities.

If there is anyone left that I have not offended or made unhappy, if they will just stand and state their cause, I will try to do that. Thank you.

Mr. MITCHELL. I thank you for that added comment. You made a mighty effort to do that, but you did not quite succeed.

[Exhibits 1 through 8, referred to in testimony, follow:]

EXHIBIT #1

CONTROLLING INTEREST

March 26, 1980

"An immediate reduction in interest rate is vital to prevent wholesale bankruptcy of contractors, car dealers, and retailers of any appliances requiring financing. Otherwise, a collapse having an impact five times the magnitude of a Chrysler failure is likely in the next 3 to 6 months." This dire forecast was made at a meeting of delegates from the White House Conference on Small Business, convened to promote recommendations of that conference.

As a result of this threat, a consensus appeared to be developing to request a 3% reduction in interest rates from the Federal Reserve Board with similar requests to the President and Congress. There is little doubt that a crisis condition is developing and some action is imperative, but controlling interest rate is not a long term solution to the problem. It attacks the symptoms of inflation, not the cause. Furthermore, it does not conform with the recommendations hammered out at the White House Conference in January. Accordingly, I spoke against this solution offering the following four-point program.

Point 1 — Put a moratorium on new regulations and critically examine existing regulations. They now cost manufacturers and consequently, the consuming public over $100 billion per year ($2,000 per family. These regulations, many of which are not effective, have a greater impact on prices (inflation if you will) than oil imports. This cost is 5 to 10 times what it was ten years ago and considering regulations now being implemented, it will probably double in 5 years.

Point 2 — Nearly every one agrees on balancing the budget, but Carter's feeble attempts fall far short. His proposal calls for increased taxes and a cut of slightly over 10 billion. What is needed is a dramatic cut of at least $50 billion (10%) and preferably more. When it is recognized that the current budget is 2 times what it was 20 years ago (in real dollars), a 10% cut should be easily attainable. The statement that 70 - 80% of the budget is fixed is pure hogwash. What Congress gave - it can take back, and any Congressman who says it can't be done or refuses to do it should be replaced.

Point 3 — Taxes should be reduced a corresponding amount, or at least 10%. The resulting saving to the public would provide more funds to stimulate the economy and increase those funds available for investment to finance purchases and to create new jobs. Kennedy tried this approach in '62, and it worked wonders.

Point 4 — Income from savings and dividends should be made tax exempt. This is only fair inasmuch as current inflation rates are higher than interest rates; consumers spend rather than save when they know that even with accumulated interest they can buy less in the future. These tax exemptions would greatly increase the flow of money into savings and would encourage investment in the private sector. Both would help control inflation.

After considerable debate both pro and con, the delegates rejected by a vote of at least 2 to 1 a resolution to call on the Federal Reserve Board to reduce interest. This was a tacit endorsement of the four-point program I and others enunciated.

This vote was gratifying inasmuch as it rejected a short-term remedy which would make matters worse in the long run. The four-point program makes economic sense and is in line with the carefully worked out options of the Conference.

It is also instructive to note that in many particulars this program is the direct opposite of that submitted by Carter. Considering the effect of the program he has tried so far, what better recommendations could there be?

EXHIBIT #2

FEDERAL AID TO EDUCATION

March 9, 1978

In the preface to his book, "The Law and the Profits", Parkinson makes the rather startling observation that "reduced revenue would bring about an improvement, not a decline, in public services." In the last fifteen years we have seen the corollary of this clearly demonstrated. The amount of money spent in education has nearly doubled in real dollars, but at the same time achievement, as measured by test scores, has dropped dramatically.

How can this be? The whole purpose in increasing funding of education was to improve education not destroy it. When the Russians got ahead of America in the space race in the late fifties there was a great demand to jump back into the lead, and part of this plan was to improve education. Federal aid to education was started shortly thereafter, but surprisingly no sooner did federal aid start than test scores began to go down.

Parkinson explains this paradox "When funds are limitless, the only economy made is in thinking. The worst inefficiencies do not stem from a lack of funds but from an initial failure to decide exactly what the object is. It is this muddled thinking that leads to waste, and often to waste on a collossal scale."

This has certainly been true in the educational system. With massive amounts of money to spend the educators immediately forgot what the objective was and began to promote all kinds of wild schemes. Modern math is a typical example. If there had been a scarcity of money, no one would have dreamed of starting this hare-brained scheme. It was clearly an expensive frill, but it detracted from the real object of teaching the student math so he could cope with the real world.

There were dozens of similar weird programs which used up the tremendous flood of money made available through federal funding, and each one detracted from the real object of basic education. One glaring example was the MACOS (Man, a Course of Study) Program. This monstrosity spent the best part of a semester in the fifth grade in an effort to teach the student about the culture of some obscure Eskimo tribe involving less than one hundred Eskimos. There is no way that students could be getting practical education while they were wasting time on this foolishness.

President Carter has recognized the deterioration of education, and in line with the bureaucratic mind has called for a 25 per cent increase in the funding of education to teach the basics. This is a remedy that is bound to fail. The deterioration began with increased funding and federal participation. More funding and participation will only make matters worse.

The only sensible action is slowly eliminate federal funding and control of education. When control is returned to local school boards, parents will be able to exert influence to get the kind of education they want for their children without interference from Big Brother in Washington.

Parkinson made the point very well. When there is less money to spend, there will be more time spent to determine exactly what the objective is and to concentrate on achieving that objective.

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EXHIBIT #3

SOAKING THE POOR

June 23, 1981

Tip O'Neill continually calls the Reagan tax cut unfair claiming it takes from the poor and gives to the rich, but this criticism is hardly objective. Past reductions in tax rates for the rich have increased their incentive to earn more and has, in so doing, not only increased the amount of tax paid by the rich but also increased their percentage of the total tax paid. However, if Tip O'Neill is really concerned about regressive tax programs, he should reexamine some provisions of Social Security.

Let us look at three hypothetical, yet not unusual, cases. In the first case a fairly wealthy man has built a successful business. Retiring at sixty five, he can sell his business, put the proceeds in stocks or bonds, and live very well from the income. Even though his annual income might exceed a million dollars, he could still collect a Social Security pension because unearned income (income other than payment for labor) is not counted in the earnings limitation.

The second case is a veteran who stayed in the reserves the required number of years to earn a military pension. He aslo worked the last ten years as a legislative assistant to a congressman and as such is entitled to a government pension. During his life he also worked enough in private employment to entitle him to a Social Security pension. His income from these three pensions could total close to $30,000 per year without his losing any Social Security benefits.

The third case is a man sixty five years old who has worked all his life at low paying jobs and has not been able to save much. As he happened to marry late, his home is not paid for and he still has children in college. Obviously, he cannot get by on a Social Security pension, so he has to continue working and thus loses his pension. Adding insult to injury he has to pay Social Security tax (6.65% of his wages plus an equal contribution from his employer) to subsidize the rich.

If O'Neill wants to be outraged, this third case is a situation that calls for it. Yet, he has presided over a House of Representatives that has helped create this atrocity and fails to do anything about it. It may be that Congress fails to correct this situation because they and their staffs fall into one or both of the first two categories, and they don't want to lose their Social Security pensions.

A study should be done to determine the reduction in overall benefits paid if all income is included instead of just earned income. Then a level of allowable income should be established as an optimum between the two competing objectives. These are to raise the level of allowable income (well above the poverty level if possible) and at the same time to reduce overall benefit payments so as to help restore financial integrity to the system.

Many will object to any reduction of Social Security payment claiming they paid for it and are entitled to their benefits. But what possible justification could there be to count the earned income of the poor and not the unearned income of the rich?

We Americans like to think that we are leaving our children better off than we were, but my generation has failed miserably. We have, in my lifetime, increased the federal debt from around $20 billion to almost a trillion dollars and have accumulated an unfunded obligation, mostly Social Security, of nearly $6 trillion. Is this the inheritance we want to leave our children and grandchildren?

If we are going to correct this situation, we must do something to reduce Social Security benefits. Even setting up a funded plan that would reduce contributions substantially in the future requires some sacrifice now. Who is better suited to make that sacrifice than those who can afford to as well as those of us who have allowed this deplorable condition to come about?

EXHIBIT #4

ELMER'S TUNE

Release date: March 3, 1982

LEADERSHIP NEEDED

During the past week I attended two meetings at which the President spoke. He is certainly an effective communicator, and it was a thrill to hear a President that is so articulate give a vital message with which I agree.

The first meeting on Friday, February 26th was the annual dinner meeting of the Conservative Political Action Conference held each year at the Mayflower hotel in Washington, D. C. Anyone who was willing to pay the price (about $40) could attend, and this was the fourth one for me.

Then on Monday, March 1st, two hundred small business people from all over the country were invited to the White House to witness the signing of the "State of Small Business" report to be submitted to Congress. This report stresses the importance of small business to the economy and makes recommendations to improve the small business climate.

I was one of fifteen representatives of the National Federation of Independent Business. We were briefed at their office about economic conditions and encouraged to speak out with the small business viewpoint if given the opportunity.

At the White House we were welcomed by Ms. Dole, the President's assistant for public liaison. Then prior to the President's talk we heard Vice President Bush; Murray Weidenbaum, economic adviser; and Norman B. Ture, Under Secretary of the Treasury. We were given the opportunity to question the latter two, and many did.

The message we were given was that tax cuts were necessary so that people could reinvest to spur the economy. While inflation has been cut by half, interest rates, usually tied to inflation and critical to small business, remain high. The cause: unless corrected large deficits will bring back high inflation rates.

ELMER'S TUNE is released weekly. Elmer Fike, the writer, is president of Fike Chemicals, Inc., Nitro, West Virginia. As a scientist and businessman his columns present to the lay public a realistic view of the concerns of the people, inflation, taxation, the environment, safety, and science, as well as the free enterprise system. Mr. Fike is a lecturer in demand and a frequent participant on radio and talk shows nationwide.

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When my chance came, I made the following comment:

"Everyone agrees we must cut the deficits.

"Everyone agrees we can't raise taxes.

"The only thing left is to cut spending.

"Most everyone agrees with this as long as his program isn't cut.

"It will take leadership for the people to bite the bullet and accept a cut.

"The best place to start is here in the White House. How about a 10% cut for all government employees with salaries above $40,000 to show good faith? Then others might be willing to accept cuts and make the sacrifice necessary to get things back in balance."

Of all the comments mine received by far the biggest round of applause. However, the idea was not original with me. My brother Stanley, who was Senator Stuart Symington's administrative assistant for twenty four years had just told me that Symington had introduced a bill calling for a comparable cut during the Ford administration. It didn't go anywhere, but surprisingly President Ford, who was conducting his WIN campaign (Whip Inflation Now) called Symington to object to having his salary cut.

It is inconceivable that a President or a member of Congress receiving a high salary, a bloated expense account, and prospects of an extremely generous retirement plan would not be willing to make a small sacrifice to lead the way for substantial spending cuts so vital to our economy.

True, this cut itself would not substantially reduce the budget, but, if our leaders would be willing to accept a cut, then millions of other, particularly those receiving entitlement programs (where the major problem is) may be willing to accept their share.

Our problems can be solved if people will work together and sacrifice, but no one wants to sacrifice unless everyone does. Leadership is needed to start the ball rolling, and President Reagan has demonstrated he has no peer as a leader. Senator Symington's idea of the seventies may be just what is needed to get the ball rolling today.

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EXHIBIT #5

THE TENTH AMENDMENT

THE FORGOTTEN AMENDMENT

11 - 17 - 77

Any suggestion of infringement on the rights guaranteed in the First Amendment is met with a great outcry in the popular press. Meanwhile, the Tenth Amendment is largely forgotten and repeatedly violated.

The Tenth Amendment reads, "The powers not delegated to the United States by the Constitution nor prohibitied by it to the States, are reserved to the States respectively, or to the people."

It would appear that the meaning of this Amendment is quite clear, but, if what we have done during the last forty years is not a violation of this Amendment, then it is hard to imagine just what this Amendment does mean.

The Declaration of Independence has several rather clear objections to the rule of King George. "He has erected a multitude of New Offices, and sent hitcher swarms of Officers to harass our People, and eat out their substance" is a direct quotation from the Declaration that exemplifies the criticism by the American colonists. Surely this complaint is exactly the abuse of power by King George that the Tenth Amendment was meant to prohibit.

The Tenth Amendment was observed fairly well for a hundred and fifty years until the New Deal of the thirties. Since that time the amount of legislation that violates the spirit of the Tenth Amendment has been increasing rapidly.

The federal government has become involved in welfare, pensions, education, minimum wages, medical care, restriction of crop acreage, subside of the arts, housing, business loans, safety standards, pollution control, and on and on. Without specific delegation of authority to the federal government for any of these, these concerns are reserved to the States by the Tenth Amendment. Yet, the involvement of the federal government remains unchallenged.

All of these laws which appear to violate the Tenth Amendment are justified by the clause in the Preamble to the Constitution which gives "Promote the general welfare" as one of the objectives. This is the good intention of all the laws that have been passed, and yet an examination of the record indicates that in most cases the intention is not fulfilled.

Aid to education has resulted in declining achievement. Aid to hosuing has resulted in fewer houses for the poor. The "war on poverty" has brought increased welfare rolls. Safety laws have reduced productivity with more total injuries for the same amount of product. Subsidy of the arts ofttimes has resulted in promotion of the ludicrous. Crop acreage restrictions have given rise to more intensive cultivation and even greater surpluses. Medical care payments have increased unnecessary surgery. The minimum wage has increased unemployment of the young. On the record it would be hard to prove that very much of this legislation has actually promoted the general welfare.

At the same time this legislation has drastically reduced the freedom of the people. We have run a complete cycle and have arrived back under the same autocratic rule that brought about the original Revolution.

While we have forgotten the Tenth Amendment in order to "Promote the general welfare", we have also forgotten another object stated in the Preamble, e.i. "and secure the blessings of liberty". This is the blessing for which the Founders of our country came to these shores and later threw off the yoke of England. When we lose this blessing, we may also destroy the "general welfare" by the oppression of an endless bureaucracy.

EXHIBIT #6

Proposed Option under Economic Policy & Government Programs

Establish a Small Business Credit Bank Similar to Present Farm Credit Banks

Acquiring the necessary money to start or operate a small business is one of the most serious problems the entrepreneur faces. Government programs have failed to solve the problem. The SBA has not been as effective as it could be for at least two reasons.

Those administering the SBA program are not businesspersons themselves, and therefore are not in a position to evaluate accurately a business proposition. They often approve loans that are not viable but on the other hand fail to approve loans that should be approved.

Bankers who participate in SBA loans often suffer from the same limitation. By nature they are very conservative financially and tend to make loans only to well established companies who have more than adequate collateral.

As a result the entrepreneur entering business or meeting temporary financial difficulty has serious problems financing his business.

One source of funding that was available, the use of before tax dollars set aside in pension and profit sharing plans to finance new equipment or expansion was dried up as a result of ERISA restrictions. As a result many small businessmen find themselves forced to invest in approved pension funds that pay 6% interest and, at the same time, borrowing needed money from lending institutions at 12 - 15%.

In the late thirties the farmers faced similar difficulty financing their operations. The solution was the Farm Credit Banks. An original grant from government provided seed capital for starting the program. To borrow money the farmer had to become a participating stockholder. He could then borrow money either for land purchase (long term) or for financing machinery and crops (short term). The Bank became a cooperative credit organization, and loans were reviewed by a committee of peers. When problems arose, farmers who were members of the Bank acted as counselors and consultants to help the one in default.

(over)

EXHIBIT #7

OSHA

POWER CORRUPTS

May 16, 1979

An eighteen month controversy with OSHA has ended. The story may explain the animosity toward OSHA and how OSHA is counterproductive.

In November, 1977, OSHA spent eight days in my plant making an inspection for safety and health hazards. They found several mechanical violations which were resolved. During the health study they tested for exposure to about thirty compounds. On those compounds where standards had been set there was no exposure greater than the permissible level. However, no standards had been set on several compounds known as substituted thioureas. While excessive doses of these compounds have caused thyroid tumors in animals, studies of thousands exposed reveal no problem in humans.

As a result of the inspection OSHA filled eighteen pages of citations and levied $8,620 of fines for exposure to these thioureas. The required abatement called for reduction of exposure to the lowest feasible level and procedures common to the most potent carcinogens. After some hesitation they suggested that this level should be 0.04 parts per million, one twenty-fifth the permissible level for vinyl chloride, a known carcinogen. It is unlikely that any company could afford to produce the relatively small volumes required of these products economically under the specified conditions.

One citation was made for failure to notify employees of symptoms resulting from exposure, but OSHA subsequently admitted they knew of no such symptoms, and they agreed that our medical surveillance showed no symptoms.

At first we decided to discontinue production of these products. (One other producer went overseas.) However, even if we discontinued, OSHA refused to frop if we discontinued, OSHA refused to drop the fines. When the impact of quitting was greater than anticipated, we decided to stay in and fight. Eighteen months after the inspection and nearly a year after the citations the case came to trial.

We were able to have all of the evidence except that collected on the last day excluded because the citations were not issued within the required six months. At the time of the inspection OSHA had not published any information on the potential hazard, and they no doubt were reluctant to issue the citations until a report was published. It was published just a few days before the citations finally issued. If the exposure was "serious" as OSHA contended their delay seems unconscionable.

After the opening statement by OSHA in which they admitted that there had been no standards set, the judge called a conference with the lawyers. He made it plain that he was not sympathetic to the OSHA attempt to set standards arbitrarily without the public hearing required by law and with no evidence of adverse effect on humans. He virtually demanded a negotiated settlement. We would have preferred a verdict in our favor, but the almost certain appeals by OSHA would have been too expensive. We agreed to a compromise.

Once the tyrannical power of OSHA was curbed a reasonable settlement was quickly reached. It involved a practical program to reduce the potential hazard to practical levels, and the fine was reduced from $8,620 to $100.

The case is a sad commentary on the OSHA program. After eighteen months, thousands of dollars spent by both sides, and a substantial loss of business, a settlement was reached that could have been made at the time of the inspection had OSHA been reasonable and cooperative instead of dictatorial in their approach to the problem.

How many times is this tragedy repeated throughout the country?

EXHIBIT #8

ADDING TO INFLATION

February 20, 1980

While pay checks get bigger each year, real disposable income in constant dollars has been decreasing for nearly ten years. Government regulation and taxes are two major causes, but there are others which, while small, add up to a significant effect. Malpractice suits, which have been widely publicized, increase medical costs. Not so well known but in a similar way product liability suits are increasing the cost of many manufactured items.

One well publicized example of a product liability suit is the one against Ford Motor Company. It is alleged that the Pinto was a defective product inasmuch as the gasoline tank was located in a manner likely to result in a fire in the event of a rear end collision. Most cases are not that spectacular, but they can add up to a very significant cost.

A few months ago my company was named defendent in a $5 million product liability suit. A resident of Akron who worked at one of the rubber factories had died of cancer. His wife decided that his death was caused by exposure to chemicals, so she brought suit against all companies who supplied his employer, and we were one of the two hundred who did.

This is probably a nuisance suit. There is little or no evidence that any of the chemicals actually caused his death, but there is always the possibility that one of the defendants may settle out of court or not file all the necessary papers and lose by default.

But, even if the case if thrown out on the first day of the trial, the cost will be enormous. Each company is required to document all sales to that company and review the possible toxic hazard. It is very likely that the average cost to each supplier and/or his insurance company will be in the range of $2,500. This means that $500,000 will be spent by defendants before the case ever goes to trial. If a lengthy litigation results, the cost can increase dramatically.

There are 300,000 cancer deaths per year in this country. If just one percent result in some action such as above, the three thousand resulting cases would cost $1.5 billion dollars. The cost can easily run many times that in the near future if the propaganda put out the government goes unchallenged, e.i. 30%-40% of the cancer deaths are the result of occupational exposure.

This example of a frivolous suit is just one of many being filed with no justification but with the hope of getting some settlement. The cost of these suits is paid for by insurance which is becoming considerably more expensive and often almost impossible to obtain. For small manufacturers (about half of the total) the cost can be as much as 2% of the sales volume. This can be pyramided when a product passes through several hands along the manufacturing chain. This is just one very small item that can add a few percent to the cost of living with no corresponding benefit.

Fortunately, something can be done about this particular insidious erosion of our standard of living. The U. S. Dept. of Commerce has written a uniform product liability law that is now being considered by many states. This law would limit more closely liability and simplify findings of damages. It would also virtually eliminate frivolous suits by making the plaintiff liable for costs and attorneys' fees of the defendants if the defendant was successful in his defense. With this provision no one would bring suit unless he had a reasonable case. Ones like that described above would almost certainly be eliminated.

Mr. MITCHELL. Mr. Kline.

TESTIMONY OF H. RICK KLINE, PRESIDENT, KLINE VALUATION SERVICES, INC., TRENTON, N.J.

Mr. KLINE. Thank you, Mr. Chairman. I will not go into the introductory remarks, due to the gracious introduction by Congressman Smith.

Mr. Chairman, I would like to thank you and the members of your committee for the opportunity to present my views concerning the effects of the current economic climate on my business as well as on other small business people.

I would like to begin by acknowledging that the current problems with the economy have been a long time in the making. I do not know very many serious people who believe that the fundamental problems in our economy can be resolved without the infliction of some very unpleasant short-run measures which must lower the rate of inflation, restrain Government spending and lower the high rate of interest. All business people, including small business, must be willing to bear a fair share of the burdens being imposed in order to change the direction that our economy has been taking for the past several decades.

It is my recommendation to you that you and your committee do everything possible to assist the President to reduce the size of the deficit as a short-term means of lowering the current high interest rates. I believe that the incentives to increase the rate of savings of the American people, recently written into law, will in the long run have the effect of lowering interest rates. The current high rates limit the options of a small businessman, whether he is concerned with mere survival or the diversification and expansion of his business.

The health of my profession—real estate appraising—and therefore my business, is related to a large degree to the health of the real estate industry. Over the past several years, the housing industry has been depressed because of the combination of high interest rates, the high rate of inflation, and the cost which thrift institutions have had to pay for funds which they could then lend for mortgages. Independent fee appraisers who specialize in residential work—and I am in this category—have been hurt the most by the slump in housing activity.

I would like my remarks before you today to be taken in context. It is my impression that Government policy over the past several years has encouraged the availability of easy mortgage credit for housing. The availability of excess credit has had a dramatic inflationary impact upon the price of both new and existing housing. The upward movement in housing prices has forced more and more buyers out of the housing market. The subsequent increase in interest rates brought housing activity to a virtual standstill. Therefore, I do not want my remarks to be construed as an attack upon the current administration for having created the present condition of the housing market.

But, Mr. Chairman, the administration in Washington ought to be made aware of the precarious position which the housing industry is in. It should be made to realize that the housing industry cannot rebound to a healthy state unless the thrift institutions are in a healthy condition and interest rates decline.

I have read in the press that the President's Commission on Housing focused its recommendation on the problems of the thrift industry. I agree with the Commission's analysis that the stability of the thrift institutions is closely related to the health of the housing industry, but we must not lose sight of the fact that the short-term liquidity problems of the thrifts may be solved without resolving the underlying problem of making money available for long-term mortgage lending.

I would like to express my concern, as a small businessman, about the deregulation of the financial institutions. I am not one of those who believes that big is necessarily always bad. However, in this case, I am concerned that the larger financial institutions will squeeze out the thrifts which have been the backbone of the housing industry.

Over the past 40 years, the long-term fixed rate mortgage has provided the foundation for the growth of the housing industry. In my opinion, Mr. Chairman, the challenge to your committee and to the Congress as a whole is to come up with a statutory and regulatory scheme which will accommodate the current movement toward the deregulation of the financial institutions and at the same time, provide a stable source of long-term funding for housing which will satisfy the housing requirements of our citizens.

Mr. Chairman, there is one final issue that I would like to bring to the committee's attention. I am sure that all of you have heard the term "creative financing" used in connection with real estate transactions during the past several years. It is an umbrella term covering a variety of financing options, such as buying down the rate of interest, seller financing of second and third mortgages, balloon mortgage payments due after a period of time has elapsed, and so forth.

In the short run, this type of financing has acted as a cushion for the slump in real estate activity. However, I am concerned about the impact upon borrowers who have used these types of financing arrangements with the expectation that interest rates would drop and they would then be able to refinance their loan.

Some of these methods of financing were used in the 1920's and the 1930's, and I am sure we are all aware of the consequences. The long-term fixed rate mortgage was created to stabilize the housing market in the wake of the extreme number of foreclosures. I would encourage the committee and the Congress to act cautiously in taking any action which would perpetuate the use of the so-called creative financing methods. I would further encourage the committee and the Congress to pursue policies which would insure the continuation of the long-term fixed rate mortgage.

In summary, I would say that my colleagues in small business and I are having problems in coping with this difficult economic period. At the same time, we remember the difficulty we have had because of the high rates of inflation during the past several years. We are not asking for a short-term quick fix which will only defer the day of reckoning to future generations of Americans. We are looking for leadership from our elected representatives in addressing the long-term underlying problems which have resulted from some of the misguided economic policies of the past.

Mr. Chairman, I would be pleased to answer any questions that you or the members of the committee may have. Thank you.

Mr. **Mitchell**. Thank you for your statement, Mr. Kline. Thank all three of you gentlemen for taking the time to be with us. I will try to ask just one question, and that gets exceedingly difficult.

Mr. Kline, what has been your experience with the variable mortgage rates? Has that proved workable?

Mr. **Kline**. Somewhat. The biggest problem with the variable rate mortgage is with the uncertainty in general with interest rates. People will be qualified for a mortgage one day and the next day they may not qualify. The day beyond that, they may lose their home. It is a big concern of a lot of people because we really do not know from one day to the next where an individual financially will qualify or not qualify.

So the variable rate concept is a good concept in that it does keep the financial institutions in a little better shape, but it does have some harmful impact on individuals.

Mr. **Mitchell**. Then up to this point, it has not had any salutory effect on the housing market.

Mr. **Kline**. It has had some, Mr. Chairman, at this point. We just do not know what is going to happen down the road if interest rates continue to climb. That is the biggest problem. If they do continue to climb, people will no longer be qualified from the point of view of the percentage of income going to housing, being reasonable or affordable.

Mr. **Mitchell**. Mr. Bumpus, I was interested in your comments on CETA. I am afraid they come a bit too late, though. It appears that the die is cast and CETA has been cast out of the picture, except for some very small training programs. I agree with your statement.

I wanted to ask you, you talked in terms of differentials for regulations between small and large businesses. That is exactly what the Congress looked at under the 1980 Regulatory Flexibility Act, and it was my understanding that the Congress was to oversight that, but it appears more and more that Vice President Bush has assumed the oversight responsibility. Since he has assumed that responsibility, have you noticed any appreciable change in the way regulations affect small businesses as opposed to large businesses? Are the regulations still just as burdensome?

Mr. **Bumpus**. The regulations have not changed one iota. I think everyone was waiting for you all to implement the changes.

Mr. **Mitchell**. I really think that this committee has got to start doing a great deal more oversight on that piece of legislation.

Mr. **Bumpus**. Nothing has changed. Same requirements, perhaps.

Mr. **Mitchell**. I think we have let the Vice President take the ball and run with it. We will see if we cannot come up with some oversight hearings on that piece of legislation.

Mr. **Fike**. Might I add a little bit to that?

Mr. **Mitchell**. Yes, Mr. Fike.

Mr. **Fike**. I agree with what he said, that there is no difference as far as regulatory flexibility is concerned. I have seen very little effort to implement the law. However, I do think that there has been a considerable lessening of the regulatory burden for everybody, large and small, under the new administration. Particularly in OSHA, there has been a substantial change. OSHA was one of the most troublesome for many small companies, and least productive, too, I might add, in my opinion.

Mr. MITCHELL. Had to get it in, did you?

Just one quick question. You talked about cutting across the board food stamps, Congressmen's salaries, and so forth. What is your reaction to the administration's request? The President has asked for an increase of 17 percent for the White House staff.

Mr. FIKE. I am very much opposed to that; I think he is out of his mind. I do not think I have ever written a column that had more popular appeal than the one I just wrote a few weeks ago. I made this statement at the White House when the President signed that bill. You know I do not care who I make mad. I am going to go right to the very top; I made that statement then, that if they wanted to lead the people of this country, the thing to do was to start the leadership at the top and take a cut right there. Once they show that they were willing to take a cut, then I think other people will go along too, and I think that is what we have to have: leadership. It has to start at the top.

Mr. MITCHELL. All right. We will turn the feisty witness over to questions from the other members of the panel.

Mr. STATON. Thank you, Mr. Chairman. There is an old story about—too bad Congressman Gray has left—a Baptist preacher who was preaching away one day on the evils of all the 10 Commandments, and he started talking about drinking, and one old guy in the back of the room said, "Now, he has stopped preaching and gone to meddling."

When I heard you talking about cutting congressional salaries, I thought to myself, well, now, you have stopped preaching and going to meddling there.

But I was interested in your comments, Elmer, in relation to Mr. Kline's comments. You two seem to be at odds on the function of the savings and loans. If I understand what you are saying, you would like to see more competition and you would like to see that the savings and loans be further regulated to allow them in the commercial lending market. Whereas, I believe if Mr. Kline had his way, he would be more concerned about the savings and loans being involved in the lending of mortgage money. So I think an there is a problem facing us right there.

I would just like to ask if you would please respond to this. Who would take up the slack in the mortgage lending if the savings and loans found another way to make loans?

Mr. FIKE. Well, I am not an expert in this area at all, but I have talked to some people who are very much involved, and they tell me that under the present situation the savings and loans cannot survive. Most of them, in spite of the fact that it may be illegal—to more commercial loans as a means of survival. I think it is fine having an organization there to fund housing, but it is important to keep them alive. If going to commercial loans with part of their efforts is what it takes to make them viable and keep them alive, then I think it is better to do that than let them go broke.

I recognize the problem that if we let them get into commercial loans, they may neglect housing loans and that could be a serious problem. I think an even more serious problem is that they are going to go broke if something does not happen. I think they are in desperate shape. That is the understanding that I get.

Mr. STATON. Would you care to respond to that, Mr. Kline?

Mr. KLINE. Yes; it is true that they are in very difficult condition and it is true that some deregulation might be helpful. My only concern is this: That we have as great a crisis, if not greater, in the lack of affordable housing. We are about to see a generation that cannot afford to buy a home. We are about to see a generation that cannot afford to rent an apartment, because along with the lack of affordable housing for sale, there is also the lack of affordable housing for rent. When that happens, and when they have no place to go, I would not want to be sitting in my safe, secure home when they shake it down. I think it is something that we really have to concern ourselves with, because we can talk about the problems of even our own businesses that do not come close to this kind of a problem. Frankly, it scares me.

Mr. STATON. Mr. Bumpus, I have one question. I find that item No. 4 here is very intriguing. In fact, I really like this idea. A network to find products that large businesses are going to stop producing because the product no longer generates enough sales at their level. I am just wondering, I guess, from an old data processing man's point of view, how you would accumulate this data, and make it available. Have you given any thought to expanding on this idea? I am very intrigued with the idea.

Mr. BUMPUS. Yes; the Department of Commerce creates a lot of data. I believe it is based upon building permits which are issued, so they do send out many types of surveys. Also, this could be coordinated through the SBA and their local offices. They can contact the chamber or the small business groups. They will know when they are going to spin off a machine or a particular line, because at that particular level, they have got budget, they have got flow. So they know what is going on.

That corncob pipe was a very succinct example, because it would have been very viable for some of the small businesses we are talking about here. Another one, which may sound very innocuous, but a wooden clothespin. They now produce a plastic one in Taiwan, because it was not economically feasible here. It would have been something that some of the startup businesses could have taken. The machinery had been depreciated and written off. The management expertise was there, which could have been transferred over.

It would not be a tremendous job to ferret out the products which are waning, where maybe only 100,000 are produced a year. I think manufacturing companies would know what they want to get rid of. The Australians will send teams over, which go to the manufacturing conference, whose sole purpose is "What are you guys going to get rid of that we can buy the machine from you and ship back to Australia to produce." The Taiwanese do the same thing.

Mr. STATON. I guess what you are saying is that much of the information that is already there simply is not available to the American producers and entrepreneurs.

Mr. BUMPUS. That is correct.

Mr. STATON. I really like that idea. I would like to ask some more questions, but I will not.

Mr. FIKE. Can I get back on that for just a minute? That was what I was saying, essentially the same thing. I noticed his comments and I agreed with him very much. And that is what I was saying when I feel there are more opportunities for small business today in the manufacturing area than there have ever been, because many big companies are doing just as he says, dropping out the smaller volume products that they cannot afford to make on a big scale. So the opportunities are there for small business. I am convinced of that.

Mr. WEBER. Thank you, Mr. Chairman.

I wanted to talk some more about this Regulatory Flexibility Act that Congress passed before I was in Congress back in 1980. As I understand it, all agencies are required to review all new regulations, and wherever the agency finds a substantial impact on small business, they are required to create two tiers of regulations, one for the major businesses and one for small businesses. Then, over the next 9 years, the agencies are to review all regulations and create two tiers again, wherever appropriate.

I would like to enlist the support of the public in identifying burdensome regulations that should be changed. I know that Vice President Bush is the chairman of the regulatory reform task force and has set up that kind of nationwide appeal. Can you gentlemen right now give us an example, besides what is in your testimony, of any regulations that you believe are of this nature, that ought to be changed, modified, two tiered, or what have you?

Mr. FIKE. I think all of them. You know, I think you could just say almost any one of them would fulfill that, but it is all too easy for the regulatory agency to redo the thing and say, "There is no adverse impact on the small business." It is up to Congress, through oversight hearings, to make sure that they take a real hard look at it through the hearing process, but I think almost any regulations that has been written is going to have greater impact on the small company. Do you believe that is right?

Mr. BUMPUS. Yes, a regulation, just out of necessity, is going to have a greater impact. One, the necessity for reporting. Larger corporations have departments to take care of that. The small guy, his wife does the reporting in the kitchen.

One, the Occupational Safety and Health Act, OSHA: There has been no diminishing of the regulation. Being in the construction field—and we do heavy construction—we are subject to audits and inspections this year, the same as we were from the beginning; it has not changed one iota.

At our size, we plug in the amount of money on the contract so we have people work for that inspection or for that "walk around." Although some of it is supposed to be illegal and you cannot do things, we still do.

The smaller, maybe, construction contractor, one or two men attempting just to survive. His equipment, out of necessity, will not usually be of the same type as ours, or maintained as well, because he is busy trying to make a living. He does not have people who work the yard or take care of the equipment. The inspections of him have not ceased one bit.

Some may say, "Well, safety is safety is safety." Yes, that is very true, but some of the regulations are very asinine. The regulation where we set scaffolds 60 feet in the air should not be the same regulation if a man sets it at 10 feet. You can survive a 12-foot fall easily, you will have great difficulty if you fall 60 feet. The smaller entrepreneurs in construction usually would not have the necessity for high hazard type of equipment or high hazardous job. Because when we start scaffolding 60 feet in the air, you are no longer talking about a $5,000 job; we would have $5,000 worth of scaffold. He will have maybe $500 worth of scaffold.

So, some of those regulations, I do not think, that they are being diminished one bit in fact, or in administration. In fact, I think if anything the OSHA inspectors have got better cameras to catch the guys.

Mr. **Weber**. Thank you very much. That is interesting.

I had then my final question for Mr. Kline. I am concerned the same as you are about the problems of long-term financing for residential mortgages in a climate of financial deregulation, and I do sit on the Banking Committee and we have discussed this at great length. What would you think of a scheme that reversed the process of deregulation for the thrift institutions, continued regulating them into mortgage lending exclusively, and at the same time deregulating the banks? Let the banks compete with the money market mutual funds, compete with them and go into all the areas that banks are trying to get into today, the common trust funds, the underwriting of mortgage revenue bonds and so forth, done on level playing fields. So that they go after the high yields, high yield type of investments. Then give a competitive advantage to the thrift institutions, because they will be limited only to the relatively lower yield and we hope lower yield in long-term mortgage lending. Give them a competitive advantage by giving them a permanent—exclusively to them—all savers certificate over an extended period of time at whatever interest rate they wanted to charge. Again, keeping the $2,000 or some limit on the amount of the interest rate that individuals could deduct on their income tax returns.

So you would have a climate of full deregulation for the banks, which is what they want. You would have a climate of regulation with a forced allocation of credit to the housing market, with some competitive advantage via the all savers tax-free certificate for the thrift institutions. Do you think that is viable over the long term?

Mr. **Kline**. I think it is possible. I do not really feel that I should give you a straight across-the-board comment, because I really would have to give it some thought. But I think that it is a very interesting concept and one that could be very helpful to the thrifts, but I would prefer to respond at a later time. I would be happy to write you on that.

Mr. **Weber**. Comments from the other panelists?

Thank you, Mr. Chairman.

Mr. **Mitchell**. Yes, sir. Mr. Smith?

Mr. **Smith**. Thank you, Mr. Chairman.

My first question goes to Mr. Kline. First of all, I think it is very fitting and appropriate that a member of the realtors and housing industry be here, because I think most of us realize that they are small businesses and our economy is so definitely linked to how the automobile industry operates, as well as the housing industry. One out of every six jobs is in the auto industry, although most of those cannot be categorized as small businesses. Certainly, the realtors are, as are most of those who are involved in the housing industry. Could you, Mr. Kline, explain for the committee the present demand for housing? I remember one time you explained that to me, and I was rather shaken at the bulging number of people who are waiting to buy homes, but may never get that opportunity. If you could just share that with us.

Mr. **Kline**. The demand seems almost endless. I do not have any statistics with me at this time, although, I will be happy to provide the committee, although, I am sure you probably have those. The demand: I will give you an example. I do not sell property; I appraise it, but I do appraisals for financial institutions and so, I get a pretty good idea of when properties are being transferred and when they are not by the amount of appraisal requests that I get. Unfortunately, there are not enough of them right now coming into my office.

However, when the mortgage rate began to drop about a year ago, perhaps maybe 2 years ago now, down to 14 percent. I say "Down to 14 percent," because looking at everything in perspective, I used to think that a 9-percent mortgage was usury, but when it got down to 14 percent, the demand was incredible. The amount of sales were tremendous, just in my small trade area of Mercer County, N.J.

When it got up to about 15 percent, there seems to be a stop. There is a magic number somewhere in there that it goes from affordability to lack of affordability for most people. I do not claim to be a total expert. I am a one-man business, and I only know what I see every day. But I know that that demand is very much pentup. When lower priced homes come on the market, those few that do, they are grabbed up very quickly. When a builder can offer a buydown and an attractive mortgage rate, the homes sell very quickly. Just on that evidence, there is a tremendous amount of demand. There are more and more people who are staying with their families even beyond getting married, who would like very much to own their own homes, but cannot afford it.

What is worse, there is a cynicism that is building there. A lack of respect for the concept of private property, because when you cannot have it, you do not really feel anything for it. One of the strengths of the country that has always been a great preserver of our democratic system has been that people can, forgive the expression, own a piece of the rock, that they have that opportunity. They want that opportunity, and when it is denied them, we have a real problem.

Mr. **Fike**. I am not sure I agree with Mr. Kline all the way, that the situation is as bad now as it was. I remember when I started to work with a salary, right out of college, at $1,500 a year. A house cost $2,500 and that was beyond my reach at that point, because I could not get the financing. Today, many young couples are both working and a $40,000 income per family is not uncommon. The problem is that the house they want might cost $80,000, but the house comparable to the one that I would have had to pay $2,500 for in 1940, today would be selling for $35,000, instead of $2,500, so that in relation to their income, they are as well off today as they were in 1940.

The problem is that it is not the high cost of housing, as much as it is the high cost of extravagance. The people do not want just five rooms with a bath or four rooms and a bath. What they want is, three bedrooms, three baths, a two car garage, and a full basement, and a color TV and air conditioning and everything else which runs the price way up.

I think what we have is too high expectations: Young couples have got to live within their means. Once they get their $35,000 house paid for, then they can talk about their $80,000 house if they want to, but I think too much of it are the high expectations, rather than the reality of the situation.

Mr. **Smith**. I have a couple of questions. On page 4, Mr. Kline, you talk about creative financing. If it was not for that, we would have been in dire straits in recent years and many people who do have homes now would not even have those.

How long do you think creative financing can be used in order to prevent us from suffering graver consequences? Do you see a time after which it just no longer will be a viable option?

Mr. **Kline**. If interest rates continue to climb as they have, it will no longer be a viable option, because what is happening normally with the so-called creative financing is that sellers, or homeowners, are taking what is commonly referred to as a "balloon mortgage." That balloon comes due, generally, in 1 to 3 years from the time of purchase; that is the day of reckoning. That is when they are going to find out that if interest rates continue to climb, they cannot afford the house they are now living in.

By the way, you are more than welcome, sir, to come to Mercer County and find me a $35,000 house.

Mr. **Fike**. I did not say you could find it; I said you have to build it. I will guarantee you it can be built.

Mr. **Smith**. One final question. Mr. Bumpus, in his testimony, said that Federal employment and training policies should be refocused to support and complement the role of private business to provide jobs and training. I could not agree more. The CETA program in the last budget, contrary to popular myth, was actually funded at higher levels in many of the training areas. The public service job sector was indeed eliminated but that elimination had been proposed by the Carter administration before President Carter went out of office.

So, I think sometimes people feel that CETA was just slashed and cut; the fact of the matter is that it was actually strengthened in the training portion. We do have a very fine PIC in our Mercer County area, that is doing an outstanding job of bringing all kinds of diverse elements together: The schools, the colleges, the vocational training centers, as well as CETA. They are placing people, to a very large degree, and getting people into private sector employment. That was the original purpose of CETA, to train, and not to act, as a sort of revenue sharing, which is the tangent it got on with the public service sector aspect. So, I agree with you wholeheartedly. I think it has been refocused. Further, we find that it is certainly necessary, but I do think the administration and certainly this Congress—and I think it is bipartisan—is committed to that kind of refocusing.

Thank you.

Mr. MITCHELL. On that last one, I am not at all sure we have total bipartisans.

Gentlemen, thank you very much. A couple of comments I want to make, first of all, to Mr. Kline.

You have touched on what I think is one of the most critical problems that this Nation confronts today. We have already seen walkons for the savings and loans. The people are coming in and quietly withdrawing their money. I can bet you my bottom dollar, if we have a run on the savings and loans, there is going to be a run on the banks. Not that the banks are not secure, but that climate of hysteria will be out there. The Congress has taken some steps to try to protect the savings and loans a little, but I am not sure that that which we have done has been sufficient. I am in full agreement with you that, if we ever reach the point of letting the savings and loans be in jeopardy by having a run on those savings, it is going to have an enormous impact on this whole economy.

We both serve on the Banking Committee, and I think all of the members of the Banking Committee are cognizant of the grave danger to savings and loans as of this time.

Mr. Bumpus, your recommendations are cogent and they certainly will be referred to the appropriate subcommittees of this committee. For example, I can see a number of these things that ought to go to Mr. Ireland's subcommittee on the general problems of small businesses: Certainly your number one, and perhaps your number three, and number four. All those ought to go to Andy Ireland's subcommittee.

The tax and abatement, tax credit for startup of job-producing businesses is really almost beyond the purview of our committee; that is the House Ways and Means Committee. What we can do is to submit this recommendation to them, to at least start studying it. It is a little beyond the scope of the full committee and the subcommittee.

Mr. BUMPUS. Mr. Chairman, I understand, I did learn yesterday and today that there is some work already along those same lines. If it could be a little bit quicker, it would be very helpful.

Mr. MITCHELL. Well, good. Let us refer this, then, to Mr. Nowak's subcommittee.

Finally, I mentioned that the committee is going to have to step up its oversight on the Regulatory Flexibility Act. The starting point there, also, is through Congressman Ireland's subcommittee, and we will request that he start having some oversight hearings.

To my feisty friend there, I have no questions or comments, only the idea when you talked about the kind of home that one could reasonably live with, based on one's income. I do not know why the visions of the surplus Army paramedic tents just flooded into my mind, but I know you did not mean that at all.

Mr. FIKE. I do not mean that.

Mr. MITCHELL. I know you did not.

Mr. **Fike**. I have built several homes in my time, and I know that they can be built for that kind of money, but you cannot build a glamour house for that kind of money.

Mr. **Mitchell**. Right, and certainly we do not want to get back to the paramedic tents.

Mr. **Fike**. No, I certainly do not.

Mr. **Mitchell**. Gentlemen, thank you very, very much for your testimony, and thank you for waiting all day.

We have one more panel to hear from. On that panel would be Mr. Roy Ellison. Is Mr. Ellison here?

Yes, Mr. Ellison, would you come right down, please?

And Mr. Elijah Medley. Is Mr. Medley here?

Mr. Vincent McDevitt. Is Mr. McDevitt here?

Well, Mr. Ellison, it looks like you will be our sole and stellar witness for this last panel.

Oh, that is right. Ms. Beverly Harper. Is she still here? Yes. Ms. Harper.

As I did with the other witnesses, I want to thank you for taking the time out to be with us today. I always have terrible guilt feelings when we have a field hearing and ask business persons to participate. I just have that guilt feeling because I know what it must mean for you to be away from your business for a full day. Believe me, all of us on the committee are deeply appreciative.

Mr. **Mitchell**. Mr. Ellison, if you would lead off with your testimony, we would appreciate it.

PANEL CONSISTING OF S. ROY ELLISON; AND BEVERLY HARPER

TESTIMONY OF S. ROY ELLISON, MANAGING DIRECTOR, UJIMA DESIGN DEVELOPMENT GROUP, LTD., PHILADELPHIA, PA.

Mr. **Ellison**. Our purpose is to express the impact of Reaganomics on our firm.

Mr. Chairman, UJIMA is a multidisciplined professional architectural design service organization. Formed over 7 years ago, the firm has practiced in a broad range of architectural designs and building types within the Middle Atlantic States. The firm takes pride in its outstanding reputation for its various design and construction projects. The firm's staff typically includes between 6 to 12 professionals in the fields of architecture, planning construction, management, interior design, and space planning. UJIMA is a totally minority-owned corporation, consisting of four principals with a range of experience in their respective disciplines of 16 years. Our clients come from both the private and public sector. Through our major marketing efforts, we have been able to sustain a steady growth, and an excellent professional reputation.

Governmental contracts require an incredible amount of lobbying and often unremunerative up-front costs, just to minimally compete. Small firms that manage to get contracts are overburdened by unnecessary documentation. This is compounded by negative cashflow problems that too often occur due to bureaucratic redtape, delays in processing payment vouchers, without the benefit of payment advances. These remain as insurmountable obstacles under Reaganomics because the prospects for adequate capitalization for minority firms is nil.

Other concerns: The city of Philadelphia, the State of Pennsylvania, U.S. Government services, and all of the Armed Services Procurement Systems have proven to be totally insensitive to our request for work. Reaganomics and its cruel reduction of housing and other comprehensive neighborhood revitalization production activities will be felt first by minority firms, such as UJIMA. Typically, community development funds were a source of Federal subsidy targeted to poor neighborhoods. The good rapport established between funded neighborhood groups and minority technical experts, often resulted in mutually beneficial production. Now, both will suffer.

Even prior to Reaganomics, our small minority firms had serious problems when attempting to compete with the big majority firms for Government contracts. UJIMA considered itself fortunate when in 1978, we were selected as subconsultants to one of the largest transportation engineering firms in this Nation. That major contract was viewed by us as our panacea to resolve our cashflow problems. It would also provide our principals the experience and track record needed to expand our overall level of operations.

Unfortunately, Mr. Chairman, we were overly optimistic regarding that contract. These sad results and the dismal future prospects have convinced us that this era of Reaganomics spells serious trouble for minority businesses. After 3½ years, instead of having a success story to tell, we are inextricably bound in major financial and legal problems directly attributable to blatant discriminatory practices by majority firms and agencies.

Please see the attached letter which outlines our current financial and legal dilemma that resulted from our ambitious expansion effort and this particular problem.

Respectfully submitted by S. Roy Ellison, managing director.

Mr. MITCHELL. Thank you, Mr. Ellison.

[Letter referred to above follows:]

SAMPLE LETTER SENT BY UJIMA SEEKING POLITICAL AND LEGAL SUPPORT

Re: Dispute with SEPTA regarding design services on the Elmwood Transportation Center and the Woodland heavy maintenance facility

We urgently request your intervention in a matter of extreme importance. The subject of our concern occurred at the dedication of the Elmwood Transportation Center, October 15, 1981, when SEPTA refused to acknowledge our critical architectural design role in developing the unifying design concepts; the preliminary design; the final design; and providing architectural inspection services during the construction phases of the subject transportation development.

Since that time, SEPTA has abruptly terminated our services. This was apparently done (no formal notification provided) by a modification in the original contract between SEPTA and the prime engineering consultant, Gannett, Fleming, Corddry and Carpenter (GFC&C) to eliminate the subconsultant role.

Our apparent termination occurred at what was described as Phase II of the contract, and was totally inappropriate. First, our abrupt dismissal was without written notification that expressed a cause for termination. Second, we had already completed two-thirds of a very complex architectural design program that had already resulted in the successful opening of the 1st phase facility—Elmwood Center.

At the outset, the cost/benefit value and the overall importance of the architectural design phase was stressed by all parties as follows: "This step is deemed the most important phase of the effort in recognition that the concepts finalized in this phase will determine SEPTA's vehicle maintenance and operations flexibility for many years to come."

Moreover, SEPTA and GFC&C were equally explicit regarding the issue of coordination among the involved parties. They agreed in the final scope of services that the total design effort would necessarily be closely coordinated to insure that the completed concepts are understood by all. "With SEPTA's total awareness throughout the entire decision making and concept development process, it would be expected that the review of the Concept Report will be a formality not affecting or interrupting the continuing development of the preliminary design."

The aforementioned statements were explicitly set forth and agreed upon by both SEPTA and GFC&C. Because of the strong nature of these statements, we find our sudden dismissal totally unacceptable and inexplicable.

As a minority architectural firm, we deliberately pursued this particular development because of its significant impacts in these areas:

1. Heretofore, no minority architectural firm, nor any other firm in this region, had ever undertaken a transportation facility design of this magnitude and comprehensive complexity.
2. Participation offered our principal and technical support personnel a rare opportunity to gain requisite experiences in packaging large scale developments.
3. Credits and positive cash flow gained through the successful completion of a long-term and a substantial contract are important if we hope to establish the essential track record necessary to compete for similar projects.

We have lost much —— and we strongly urge your intervention to immediately resolve our financial and legal hardship. We have an accurate chronology of related events should you require additional data.

Thanking you for the assistance of your office in expeditiously resolving this matter.

Very truly yours,

S. Roy Ellison,
Managing Director,
UJIMA Design Development Group Limited.

Mr. **Mitchell**. We would like to hear from Ms. Harper next and then be able to put questions to both witnesses.

TESTIMONY OF BEVERLY HARPER, PRESIDENT, PORTFOLIO ASSOCIATES, PHILADELPHIA, PA.

Ms. **Harper**. Good afternoon. I am Beverly Harper, president and chief executive of Portfolio Associates, a management consulting company. I am also president of the Brain Trust, a minority business action group, a local organization inspired by the Congressional Black Caucus quarterly meetings in Washington, D.C.

In April of last year, I began chairing this——

Mr. **Mitchell**. May I interrupt you just a moment. I do not think we have copies of your statement. Did you submit them?

Ms. **Harper**. No, I did not. They will be made available to you within the next 5 days.

Mr. **Mitchell**. Well, we would appreciate it if you can have your written testimony, please.

Ms. **Harper**. Fine.

In April of last year, I began chairing this local group of minority business people. We signed formal articles of association in December. At that time, I became president.

We set as our primary objective, the passage of set-aside legislation in Philadelphia. We also want to raise the level of awareness about the state of minority businesses here in Philadelphia. We have accomplished a great deal in these 11 short months, and I will tell you more about that later. My remarks today will take about 10 minutes. After an introductory statement about my company, Portfolio Associates, I would like to give you a picture of the state of minority businesses locally and how we compare with other cities around the country.

Second, I will describe some specific problems with the Small Business Administration's 8(a) program.

Third, I will suggest ways in which the Federal Government can support the efforts of minority businesses to gain full participation in the economic mainstream of America.

First, a few words about my company. Portfolio Associates is a management consulting company I started in 1969. Although based in Philadelphia, we have had more national business and business from other cities than we have had from the city of Philadelphia. We are specialists in communications and citizen participation. Over the past 6 years, we have won 17 design awards for creating positive images through brochures, posters, ads, and slide shows. We are currently working on a number of transportation planning projects in the Delaware Valley, as specialists in community involvement.

We recently received the first and only contract PENDOT ever awarded to a minority female-owned business, as the lead agency in doing an environmental impact study.

Mr. MITCHELL. Who awarded that?

Ms. HARPER. PENDOT. The Pennsylvania Department of Transportation. Our job is lead a team in conducting this impact study for a possible widening of a highway.

Over the past 12 years, Portfolio Associates has developed a national reputation for helping citizens communicate their views in technical and complicated processes. In spite of its national reputation and over 300 successful projects, we have trouble getting business in Philadelphia.

To cite several examples: In 1979 we bid with three different teams to provide communications and citizen participation on a reconstruction of the Frankford Elevated. Two of the teams we bid with were successful in getting contracts. These bids represented about $200,000 worth of business for my company. When the city department of public property began negotiating these contracts, they cut out Portfolio's part, saying that they could handle the communications and that they could handle the citizen participation. This sent the two lead companies scrambling to make up the minority business percentage as mandated by the use of Federal funds. The work on this project finally got underway late last year. I appealed to the highest level of city government about this situation. No one did anything about it because minority businesses in this city are expendable.

In August 1981 the current health commissioner asked Portfolio Associates to submit a modest proposal to help with nurse recruitment. This was an urgent need; we responded. In October, I received a call from the person who the health department had assigned to expedite the process. It is now March 1982, and I still have no official word about this contract because minority businesses in this city do not have to be treated with respect.

In February 1982 the local transit authority, SPTA, issued a request for proposals to conduct a study to assess the economic and social impacts if the commuter rail service stopped operating. This request did not have any stated goals for minority- or women-owned business participation. The civil rights office at SPTA decided that a $40,000 contract was too small to expect minority business participation. You would think that they had a track record of giving some of the big ones to minority businesses. Of course, they do not.

Numerous city agencies have successfully learned to use the excuse that it takes too long to process a new vendor. Therefore, for the current year, they have to continue using the existing vendor.

Minority businesses receive less than 1 percent of this city's $600 to $800 million contracting budget. These personal experiences are not atypical, given the climate for minority businesses in Philadelphia when compared to other cities. Philadelphia, the fifth largest city in the country, is far behind other major and many smaller cities in making a commitment to insure that minority businesses get an equal opportunity to participate in city contracts. Philadelphia is behind other cities in creating an environment in which minority businesses can grow and develop. Cities such as Atlanta, Syracuse, San Diego, New York City, Boston, and Washington, D.C., all have set-aside programs, along with about 20 to 25 other cities.

According to the U.S. Census Bureau, between 1972 and 1977 the total number of black-owned businesses increased in New York City by over 2,000; in Los Angeles, by over 3,500; in Detroit, by over 1,000; and in Philadelphia by a mere 403. What is going on here?

Philadelphia does not have a black-owned bank, although cities with smaller populations have supported such institutions for at least 10 years. Among them are St. Louis, Mo., Nashville, Tenn., Roxbury, Mass., Seattle, Wash., and Dayton, Ohio. The same void exists in Philadelphia in regard to insurance companies and major savings and loans associations.

In April 1980 the Philadelphia Inquirer did a feature story on the policies and realities of loans to small businesses. The situation described in the article and highlighted here needs no editorial comment. Greater Philadelphia Venture Capital is an organization financed by local banks with the sole purpose of lending to minority businesses. The total bank investment in the corporation was $537,000, with the largest contribution at $89,000. In comparison, banks in Boston have contributed $8 million. The banks in Chicago $6 million, and in Los Angeles $5 million, to similar lending institutions.

The Southeastern Pennsylvania Development Fund is also a special lending agency, funded by banks and grants from the Philadelphia Industrial Development Corp. and the Philadelphia Industrial Loan Fund. Seventeen banks are shareholders, whose book value of shares total a mere $1.1 million, that is an average of only $64,000 per bank. With this reality, we cannot hope for very much relief in terms of loans for minority businesses.

In the June 1981 issue of Black Enterprise, on their list of top 100 black companies in the United States, Pennsylvania had 5, as did Maryland and Georgia. Ohio had 6, Michigan had 10, Illinois and California 11, and New York 15.

According to the 1980 census, Philadelphia is 39.9 percent black. The expectation is that by the year 2000 it will be 50 percent black; both the current percentage and the projection represents a tremendous political reality with education, strategy, and the use of effective communications to build support. This reality can be a strong weapon in demanding economic parity.

With respect to the 8(a) program of the Small Business Administration, I would first like to go on record in complete support of the program. It is not perfect. It is a mechanism that we have in place. I advocate making it work, rather than dismantling it.

Between 1977 and 1981, my company received approximately $1 million in 8(a) contracts. Today, we have no 8(a) work at all because of the massive and irresponsible cuts in the Federal budget.

The 8(a) program has helped us to stabilize payroll and to become more competitive. It has removed the unfair competition of a small company having to compete with the giants, such as MIT, Arthur D. Little, and Booz, Allen.

Some of the problems we have encountered with the 8(a) program include their lack of ability in identifying potential projects for management consulting firms; no help or special emphasis for women-owned businesses; an inordinate amount of time in processing the paperwork. My company had developed a special procedure just to deal with 8(a) business. What I did is send a messenger to whatever the agency was to pick up the paperwork and hand deliver it to SBA, hopefully on the day when someone is there who can sign it and then pick it up from there and take it back to the agency. In a lot of cases, this was the only way that I could get an agency to participate in the program, by promising that we would do as much as we could to expedite the process.

Other problems associated with the 8(a) program are the inability to attract the large national buys that come into Washington for the Philadelphia area in the area of management consulting. I do not think this area has had one national buy out of the Philadelphia office. Little or no success in building cooperative relationships with the private sector and local governments. An inability to take advantage of local opportunities, such as Philadelphia's Century Four Celebration, in terms of SBA advocating for minority business participation in this event.

Finally, some ways in which I think the Federal Government can enhance and support the local efforts of minority business people.

I would like to commend you on this hearing. It is particularly timely in Philadelphia. The Brain Trust was successful in getting this set-aside bill introduced in city council last Thursday, which is a greatly expanded form of the legislation that was introduced about 1½ years ago. There were public hearings held several weeks ago that will become a part of the record of this new legislation. The hearings were an overwhelming success, resulting in 13 of the city council members sponsoring the new version of the bill, that is 13 out of 16.

We need as much attention as possible focused on the outrageous condition of minorities getting less than 1 percent of city contracts; minority businesses have started to move in Philadelphia. We need information and contacts to develop new markets in other countries, for example. We need information and contacts to assist us in developing expertise to take advantage of the new high technology fields.

Additional Federal guidelines for minority enterprise small business investment corporations are badly needed. These corporations were created, as you know, by an act of Congress to provide funds to minority enterprises. The results of this act on MESBIC's in Philadelphia have been lending guidelines which are too narrow, approaches which are too traditional, and people who are too conservative making the decisions and deciding who satisfies their comfort level and who, therefore, they will lend to.

Very few of the loans made have been felt at the local level. About 30 to 40 percent of these financial resources need to be channeled into more high risk ventures. Also needed is relief from taxes, especially payroll taxes, which put an added burden on the minority business which is located in a city or a State that has a higher payroll tax rate. Relief could be established by the Federal Government assigning a reasonable local payroll tax ceiling for minority businesses, such as 2 percent. The Federal Government could provide credits to local municipalities to make up the difference between the 2 percent and the local rate. In Philadelphia, our local rate is a little over 4 percent.

The Urban Jobs and Enterprise Zone Act of 1981 provide the positive step in changing the negative perception of urban areas as being bad for business. Because business is not a monolith, realistic consideration needs to be given to the types of businesses which are suitable for the locations and the expansion proposed by this act. Business decisions are, in part, made on an analysis of benefits, whether or not these decisions are based on experience, seat of the pants, or careful research.

The package of tax incentives and the focus on employment and housing certainly address problems which continue to plague minority communities.

There seems to be no doubt that the minority economic situation is bad. Flourishing minority businesses would offer an opportunity to change this situation. As many specific ideas as possible must be proposed, not wasted in a futile search for one great solution. What is clearly needed is a mix of ideas, long range planning, the ability to discard things that are obviously not working, and the use of minority businesses to identify specific problems and to help create solutions.

Thank you.

Mr. MITCHELL. Thank you very much for a very impressive statement. I did detect some bitterness and I think I can understand why.

Mr. Ellison, throughout the years I have heard the complaint that black architectural and engineering firms simply cannot get Government contracts. That is one question that I am making into two. I want to know what percent of your present income is Government as opposed to private sector contracts? What is the reason? How do you explain what appears to be an almost impenetrable wall in Government service, Government contracts for minority architects and engineers? What percent of last year or this year, both years, is public versus private? What is causing this enormous impediment? You have to take the mike over to you.

Mr. ELLISON. OK. Mr. Chairman the percentage of our business in the public sector is approximately 8 percent.

Mr. MITCHELL. Eight?

Mr. Ellison. That is including State, Federal, and local. I think most of ours come from the city of Philadelphia with regards to a few recreation projects. We have not had the opportunity of doing any other kind of project for the city, nor the State, nor the Federal Government. Most of our other work comes from the private sector.

Mr. Mitchell. You did say "8."

Mr. Ellison. About 8 percent.

Mr. Mitchell. So then, 92 percent of your money comes from the private sector.

Mr. Ellison. Yes, sir. And in terms of a ratio of time spent in soliciting projects, I would say that I would spend again about 60 percent of our marketing efforts go toward or have gone toward getting Federal contracts, whether they are Federal or city contracts over the past 6 or 7 years, and we have never gotten anything.

I have gone to the Department of the Navy. We have gone to Washington to their Virginia office. We have continually filled out the 254's, the 255's for projects for the Navy. We have done this for the Department of the Army, the Corps of Engineers. For the State, we have solicited for a number of years with the General Services Administration. We have also, with the Federal Department of General Services, solicited projects.

Again, we spend a great deal of effort trying to get one Federal contract, and I guess you have probably seen me at your office. I have talked to your folks over the years. I have talked to many, many times at Congressman Gray's office in attempting to get the right combination, and just spending many, many hours, man hours, in trying to get that contract.

Mr. Mitchell. If it is so fruitless, why do you pursue it?

Mr. Ellison. Well, I think the reason that you pursue it is because you have invested so much. Many times it is just like gambling, I guess. If you get the first $100 out, you will spend $200 to go after that first $100 and then begins the multiplier factor. So you just have so much effort out, you know, you just hate to really just drop all those efforts and all of that paperwork, you know, that you have put into this system.

We have gone after 8(a) qualification. There just always seems to be major stumbling blocks for us getting qualified or what have you.

Interestingly enough, we have had more success in going into a Third World country, where we have an office in west Africa. We have to go there to get work, you know, to survive here, so it is almost beneficial to just close your doors up and go somewhere else because the agencies in the city and the State are completely insensitive to minority's solicitation. I can say that without quibbling, because I do most of the marketing for our firm. Most of the projects that we have gotten, I have personally made those contacts. So, one of the larger, which is the SEPTA project, is a project we got several years ago.

Mr. Mitchell. I still do not understand why it is, but maybe you really do not know and I do not either.

Mr. **Ellison**. Well, OK, you are asking for a specific reason, in terms of why I feel we do not get Federal contracts? Is that what you are saying?

Mr. **Mitchell**. Yes. Is it the assumption that minority architects and engineers are not as well prepared or do not have a track record?

Mr. **Ellison**. OK. You bring up a very interesting point. I think, in many instances in the past, it has been said that minority firms do not have the experience, the track record, the technicians to perform the job, but that cannot be true, because most of our experience came from majority firms. We belong to a professional organization called Minority Architects and Engineers Alliance; 90 percent of the fellows that even are practitioners now have worked for major corporations. I, myself, have worked for a number of large major organizations, and all of the people that are principals in my firm have worked for large firms. So that cannot be a valid excuse because you are producing for a major firm, but the criteria is how much work have you done on your own. When you get to the extent that you have the experience of work that you have done on your own, there becomes another excuse. As now, you know, "Well, we do not have any. We are dealing with the people that we have done work with and have been successful in the past."

Mr. **Mitchell**. Mr. Staton.

Mr. **Staton**. Thank you. Ms. Harper, after hearing the figures this morning from Congressman Gray, I am not surprised that you have had difficulty in getting contracts here in Philadelphia. But being the strong believer in federalism, as I am, I would not, as Congressman Gray, involve myself in the Philadelphia aspect of this.

I do have a question for Mr. Ellison. I am genuinely sympathetic, Mr. Ellison, to your problem with the contract that you referred to in your testimony with SEPTA and I have read over the accompanying letter. I do not understand much about what I have read. Would you mind just taking a moment and giving us the benefit of your insight on this? I really do not understand the situation. Would you please elaborate?

Mr. **Ellison**. First of all, approximately 3½ years ago, through our efforts, we received a subconsultant's contract from Gannett, Fleming, Cordry, and Carpenter to design two facilities. One of which was the Elmwood transportation facility out at Island Road and Elmwood Avenue, which is a $23 million transportation facility and houses these new streetcars and it has some management components there. They do minor repairs to the streetcars and what have you.

The second phase of that project was the Woodland heavy maintenance facility. We successfully designed and completed all of the construction documents. The project went out for bids and the project was under the budget that it was initially bidded for. But somewhere along the way, ourselves and the prime consultant—Gannett, Fleming, which has a worldwide reputation and probably one of the top transportation engineering firms in the world—both overran our budget. Their's was probably quite trivial to our own. But we were not able to get any consideration from SEPTA in order that we could continue.

What they did was get the prime consultant, Gannett, Fleming, to finish up the heavy maintenance facility, which again deprived us of funds that we already contracted for. We already had SBA loans to support, which threw us into default. It was just kind of a ripple effect and put us in a lot of legal situations. Does that explain it?

Mr. STATON. Somewhat, yes. The purpose of your statement, "To express the impact of Reaganomics on our firm."

Mr. ELLISON. OK.

Mr. STATON. I know that you do not mean to imply that this particular problem was brought about by the Reagan administration.

Mr. ELLISON. Well, I would say that a substantial portion of it was. Because the Reagan administration brings about a certain aura with it, in terms of where you were previously getting consideration when you had problems with the Department of Transportation, UMTA, and with Federal agencies or with SEPTA. Now, they take a more hard line posture than they did before. They say, "Well, to heck with you now. We can get the support from the administration to deprive you of what you have already earned in the past." That is a supportive measure that we see, a posture by the Secretary of Transportation.

Mr. STATON. When did you begin to have problems with SEPTA?

Mr. ELLISON. About 18 months ago.

Mr. STATON. So it was before the present administration took office.

Mr. ELLISON. But what I am saying, again, is that the gravity of the situation got worse.

Mr. STATON. I did not mean to be argumentative.

Mr. ELLISON. No, I understand.

Mr. STATON. I am just trying to make the connection in my own mind as to when this particular problem took place. I do understand what you are saying about the overall attitude; I appreciate your bringing that to my attention.

Mr. Chairman, I have no further questions. Thank you.

Mr. MITCHELL. Thank you.

Mr. Weber?

Mr. WEBER. I appreciated both of your testimonies and it has been very, very interesting and very provocative.

Mr. Ellison, are you saying you have had difficulties with UMTA regarding discrimination?

Mr. ELLISON. First of all, we had attempted many times in responding to RFP's 255's, and 254's in the Commerce Business Daily, in getting projects from UMTA. As I said, the way we got this project was not through UMTA. It was through direct marketing with the prime consultant. They said, "Hey, OK, you have the credentials, you have the experience, you have the recommendations from city and other sources, and we will take you aboard as our architect for this particular project."

Once we got the project, UMTA did not have anything to do with it. However now that we have the project, UMTA has to approve the funds at each level. They are aware of the fact that through Congressman Gray's office, that we have this particular problem with SEPTA. SEPTA has taken an attitude that even though we recognize that all they have to do is ask for the funds and UMTA, in the past on most projects like this, if you can justify the overrun in terms of what we call "sheets." In other words, each project is broken down into sheets. If you can show that your estimate, which initially was like 27 design sheets, and you came up with 52, that obviously there was something wrong with your estimate and they can justify it. But SEPTA, at this particular point, will not even relate to UMTA on getting that acknowledgment of funds.

Mr. **Weber**. Well, I am trying to figure out whether your problem is with UMTA, which is a national agency, or whether it is a local problem with SEPTA, because if it is a Federal problem, we might be able to do something. I know Arthur Teal personally, who is the director of UMTA, and you may know him also.

Mr. **Ellison**. Well, I do not know him. But if you would be so kind as to assist us, you know, with the help of Congressman Gray's office, because they have attempted to do that before, I would certainly accept any recommendations or assistance that you can offer, because it really has us in a real substantial bind, to say the least.

Mr. **Weber**. Well, as you may know—I do not know if you do know—Arthur Teal is a black person. That is why it caused me some alarm to think that there would be discrimination coming out of that agency.

Mr. **Ellison**. Well, we have tried. Maybe a representative from Mr. Gray's office can answer that part, because as I say, we have tried. He has gone through all of the people on the Federal level, in terms of pursuing an answer to this dilemma, and maybe he could give us an answer as to whether he addressed that.

Mr. **Reed**. The record should show that SEPTA has responded to our inquiries and their official response is that there was no official approval or change order or request by SEPTA. That basically, the problem is between Mr. Ellison and the prime contractor.

Mr. **Mitchell**. This is getting more and more complex. As I understood it, your prime had cost overruns. Right?

Mr. **Ellison**. Yes, sir.

Mr. **Mitchell**. These were accepted by SEPTA?

Mr. **Ellison**. No. OK. What the prime has done has taken an attitude. First of all, they are continually earning money. They have never stopped receiving consideration for the work that is being done. We are the only ones that have been terminated. So what they are doing is laying back and saying, "Well, hey, you know, we are not going to pursue it. If the minority firm gets paid, then we automatically will get paid." So they are not putting forth any effort.

Mr. **Mitchell**. They are not pursuing the matter?

Mr. **Ellison**. No.

Mr. **Mitchell**. But in the meantime, they have contracts going with SEPTA and UMTA?

Mr. **Ellison**. That is correct.

Mr. **Mitchell**. So they have still got cash coming in.

Mr. **Ellison**. Exactly.

Mr. **Mitchell**. When your firm and you exceeded the number of sheets that you thought were required for the job, then you were just terminated and you do no subsequent work. Is that right?

Mr. **Ellison**. Yes, sir.

Mr. **Mitchell**. Either with SEPTA or through UMTA?

Mr. **Ellison**. Exactly.

Mr. **Mitchell**. Well, OK.

Mr. **Weber**. Well, I was just very, very concerned about if you were making a charge that UMTA was guilty of race discrimination, I was very concerned about that because I do know Arthur Teal, and I would be the first one to want to take it up with him.

Mr. **Ellison**. Well, Mr. Weber, we have gone to Duluth, to Katherine Parson, which was an agency that was supposed to be a contracting agency for UMTA. And we, again, our firm or any of the other minority firms in this area has never gotten any UMTA projects. You cannot attribute that to race or what have you, if only the white firms or the majority firms are getting the contracts. You know, there has got to be something wrong, if you are still going out for them and you qualify for them.

Mr. **Weber**. Well, let me just assure you of my concern about any charges of discrimination. We do not condone that; I certainly do not.

The subject of Reaganomics—all I can do is say once again that if Reaganomics—and we have some honest differences of opinion on this committee and in the Congress as a whole—means reduced Government spending for social programs and certain kinds of housing subsidies and subsidized construction and that sort of thing. I think also those of us that voted for Reaganomics voted for it because we think that it also means lower interest rates, lower inflation rate, lower taxes, more job creation and expansion and so forth, and that the program is going to prove itself.

Let me just come, and I know I am running out of time, to Ms. Harper. I was interested in what you had to say about Urban Enterprize Zones. Would you say that your support of Urban Enterprize Zones is very strong, moderate, weak, or how would you characterize that? If not strong, what can be done to strengthen your support or strengthen the program?

Ms. **Harper**. I am strongly in favor of any initiative that is going to help small businesses. I view the Urban Enterprise Zone Act as one of those vehicles. So I am strongly in favor of it.

I do not think that any one program can be a panacea. I did have a couple of suggestions on the Urban Enterprise Zone Act, and in the interests of time I deleted it.

I think that training would be required for jobs that will exist in the 21st century. And some of these resources currently exist in community-based programs. I think we need a real effective research arm associated with this, to identify the businesses that could most profitably locate in urban areas. Then recognize that we are looking at a long-term retraining of people in areas that even today we may know nothing about, so I think that that is going to be a constant need, so that we are not training people for obsolete jobs.

I think that the recruitment hiring training and maintaining the most difficult groups of the unemployed will require a great deal of planning and long-term commitments. We are not looking at something that can be set up next year, but rather, it is going to take some planning and commitments both on the part of the Federal Government and the businesses that agree to locate there.

I think that the security issue needs to be addressed, both for personnel, the facility, equipment and materials and deliveries. I think that access to and from these zones by a variety of transportation modes are a necessity, and I think that could be looked at a little more carefully.

So they are some of the concrete suggestions that I have.

Mr. WEBER. Thank you.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Ellison, I have a couple of questions for you. First, you noted that there were insurmountable obstacles to competition, to competing. And that they existed prior to the Reagan administration. Yet, we heard this morning from the Regional Administrator of SBA that they are developing and have adopted a very aggressive outreach to try to encourage better competition and participation by minority firms.

Have you worked with the SBA with your firm?

Mr. ELLISON. Yes, we have. We received an SBA loan based on the contract we got with SEPTA.

Mr. SMITH. How much was that for?

Mr. ELLISON. For approximately $60,000.

Mr. SMITH. OK. And there has been no problem with the loan?

Mr. ELLISON. Well, yes. The loan is in default and, you know, we have gotten considerable problems from SBA. It had to be basically refinanced. We have taken the steps to refinance it and, you know, begun a new reschedule of the payments, and that has taken place.

First of all, we feel that many times when you get loans from SBA, 9 times out of 10 we requested $110,000 for a capital infusion and our actual work on this particular project. But they came up with $60,000. It did not really adequately cover our needs at that time, so that is a problem also.

I note that I do not really know of any minority business that has ever managed to get any funds from SBA that have gotten what they really needed or what they asked for, and that is a big problem with SBA.

Mr. SMITH. That is a big problem with all those who apply for SBA loans, not getting exactly what they had hoped for. That runs across the gamut of applicants, I think.

Another question: You mentioned that about 8 percent of your business is Government work. About 60 percent of your time, I did not see it in the testimony, I believe you said orally, is used in preparation of Government proposals. Have you lost any bids where you were the lowest bidder?

Mr. ELLISON. No.

Mr. SMITH. Have you lost any bids where you were considered not to be a responsible bidder?

Mr. ELLISON. Yes.

Mr. SMITH. Is that because you did not have a prior job? Because I understand that is one of the main problems with this whole industry and it is germane to the industry?

Mr. ELLISON. That is exactly correct. I would say within the last 5 years that we have lost no less than 10, both on the Federal and State level, with regards to qualifications, in other words, experience. What they will tell you is that, "Even if you have the experience in that level a project, that you do not have the experience that would be comparable to the demands that they want. You know, the technicians that they want for that particular project." So we have lost them in that regard, yes.

Mr. **SMITH**. Would it be fair to say that you were hoping to piggyback with SEPTA, to be the subcontractor and get that experience. Then you would be qualified, so to speak, to apply for further work?

Mr. **ELLISON**. Exactly.

Mr. **SMITH**. Is there any other application you have now that could qualify you? Are you trying to be a subcontractor elsewhere on another Government contract?

Mr. **ELLISON**. No, not currently.

Mr. **SMITH**. OK. One last question: Is UJIMA making a profit?

Mr. **ELLISON**. No, not here. Not in this country, no.

Mr. **SMITH**. How large is it?

Mr. **ELLISON**. Well, it is not a large company, but we do have an office in West Africa and we are getting some projects now in the new Federal capital at Abuja. We have some engineering and housing projects that we have acquired recently, and we have done some small projects there.

Mr. **SMITH**. For instance, that is keeping you afloat right now.

Mr. **ELLISON**. Right.

Mr. **SMITH**. Do you have any prospects of getting a subcontracting job at some point in the near future? Do you have any leads right now?

Mr. **ELLISON**. Well, we have a number of leads from the city and from corporations. Most of the corporations have backed off contracts to architectural type projects over the past 9 months; they have substantially backed off.

Mr. **SMITH**. OK. One other question. I was wondering—I am sorry, I forgot your name.

Ms. **HARPER**. Harper.

Mr. **SMITH**. Ms. Harper. You mentioned that you had $1 million from the 8(a) program. I was wondering how many firms were in your portfolio that were receiving those dollars. I think you said you had none now.

Ms. **HARPER**. That was my company, Portfolio Associates. The management consulting firm.

Mr. **SMITH**. Right.

Ms. **HARPER**. We received the $1 million. So it is just one company.

Mr. **SMITH**. OK. I understand. Thank you. I just wanted to clarify that. Thank you very much.

Mr. **MITCHELL**. Congressman Gray?

Mr. **GRAY**. Thank you, Mr. Chairman. I will be very, very brief, because I think this testimony, again is just very, very shocking and we can talk about the status of small business and particularly of minority business and the private sector revitalization. Obviously, if there is no growth in this area, really there is not going to be any benefit to anyone.

Ms. Harper, could I just ask you one question? Why is it that the city obviously does not do business with minority firms? In very candid terms, other than what you have testified to here today. If you could just briefly in 1 minute tick off one or two of the primary reasons why the city of Philadelphia will not do business with minority firms; obviously, they do not.

Ms. **Harper**. I think one of the problems is that out of the procurement department there are seven or eight buyers and they are all white. They have all been with the city from 10 to 15 years. I think that they have absolute control over the placements that they send the bids to. They are very involved in writing the bid specifications. When you get that combination of elements, it serves to exclude anybody new from becoming part of the contracting process. In the area of professional services, I have talked to a number of agencies that have potential procurement and I asked them if there was someone currently doing a job. Their answer is "Yes." "Why did you call me in?" "Because the managing director suggested that we give minority businesses an opportunity to bid." My answer to that is that "If I bid on this job, I am going to have to allow some money and time for startup. That is going to be part of my budget." That would automatically knock me out and then they compare me with someone who has been doing the job for them for 4 years.

So I think all of those conditions, plus there is no policy statements from the top encouraging the use of minority businesses, and I think that when you have that situation for everybody else, it is business as usual.

Mr. **Gray**. I find that very interesting that you should make that comment, because that is exactly what the Administrator from the Small Business Administration testified to earlier when he said—I think to use his words, and I would remind my colleagues that there are certain attitudes in Federal procurement that we have to deal with. Maybe that same kind of problem exists at the Federal level, in terms of procurement policies, that there are people who are making the decisions on procurement, who are not relating themselves at all to the policy or objectives of any administration at all. Of course, it is exacerbated when you have an administration, as you were pointing out, locally, that makes no policy statement whatsoever.

One last question to you, Ms. Harper. Earlier we heard the Secretary of Community Development from the Commonwealth talk about the minority business program at the State level. Some $400 million procurement was brought out under the questioning of the chairman, of which it is projected for 1982, 15 percent will go to minorities. Do you find minority business persons having any greater success dealing with the State government?

Ms. **Harper**. We have a current contract with the Pennsylvania Department of Transportation that is about $400,000. That is very unusual and they always trot that out. They have been trotting that out since we were accepted for the job in 1975. We did not get under contract with them until early last year in 1981. Much to their surprise, I was still in business and able and willing to do the work. But every year since 1975, they have used this contract as a statistic for business to a minority and female-owned business.

We have had a fair amount of success at the State level in the past. However, recently—and this is true of the Federal level too—we find that increasingly large consulting firms, large accounting firms are bidding on small projects, where before it did not pay them to bid on something that was $50,000 or $60,000, and we viewed that as an open market for us. But now, we are losing to nonprofits who are based in Washington. We are losing to educational institutions, and it is just the whole competition area. We are at a disadvantage because of our size and because of the fact that universities can point to doctors and things like that in this staffing pattern.

Mr. **Gray**. One last question. She just brought up another point that reminded me of something and I wanted to ask about it.

Is it your experience that minority businesspersons in the city of Philadelphia and in this region, southeastern Pennsylvania, end up doing more government work outside of the area as opposed to here in the area, Federal, State, and local? The reason I ask that question is because several minority business people have come to our office and they have said that they can get work in Ohio, they can get work in Illinois, they can get work in South Carolina, they can get work in many other areas, but they cannot get work in Delaware Valley and southeastern Pennsylvania.

Ms. **Harper**. I think that is true. From my experience, that is true.

Mr. **Gray**. So based on your experience, that is an accurate statement that several have made to me.

Ms. **Harper**. Yes. It is because of the environment and the climate here. It is less the specifics or the details of any one contract. It is what is created when you have administrations who do not consider minority businesses as part of the economic mainstream. We know that MIT did a study several years ago that showed that something like 75 percent of the employment in this country is in firms that have fewer than 20 employees, so I think it is not recognizing that. It is an undue emphasis on large employers, that when they get ready to leave the city you see everybody comes in to try to support them. A minority business goes out and it is given no attention.

Mr. **Gray**. Let me just add for the benefit of my colleague, Congressman Smith, they also said that they get some work in New Jersey. In fact, one of them is sitting here today who made that statement to me about getting work in New Jersey and Ohio, but unable to get work in Philadelphia and Pennsylvania.

Thank you, Mr. Chairman.

Mr. **Mitchell**. Thank you. I am not going to raise a question now, but doggone it, I have been wrestling with this business of minority architects and engineers for so many years. We just do not seem to be able to crack it.

Mr. Ellison, you talked about an organization of which you are a part. I hate to ask this of you, but could you go back to your organization and see whether you can come up with a plan, some means by which we would try to facilitate the greater utilization of architects and engineers at the Federal level. Frankly, I think I could count on the members of the subcommittee, if it is a workable plan, to go with me to Commerce or wherever we have to go to try to sell the plan; it has not been broken in 8 years. I know that, except for some token stuff. I think it is critical. If your organization can come up with some reasonable way of dealing with the problem of no track record, for example, of dealing with all of the things that they say that the Government says prevents you from getting the contracts, I personally would pledge myself to try to sell it. Before I leave Congress I would like to break this one open, if I possibly could. I thank both of you very much. Do you think you can do that?

Mr. **Ellison**. Yes, Congressman Mitchell. As you just said many, many times over in the past years we have heard you say the same kind of thing about contractors and getting them up front funds and also getting them surety bonds and what have you.

Mr. **Mitchell**. But my point is, we have made breakthroughs in every area except this one.

Mr. **Ellison**. I realize that, and I was just commenting on the fact that, you know, I can appreciate that when you do make up your mind to attack a problem, you know, it may take a little while, but you certainly make efforts.

We do have several members here from the Minority Architects and Engineers Alliance. I think about 6 weeks ago, Congressman Gray spoke to us at length about ways that he felt that we could begin to get contracts from the Federal sector. But we can certainly write you a packet, send you an indication of our experience.

Mr. **Mitchell**. I am sorry. I do not want the experience so much. I know that and it is making me grieve.

Mr. **Ellison**. OK.

Mr. **Mitchell**. I want something that is going to say, "Well, here is a new approach to this, a recommendation as to how you can avoid the problem of the absence of track record." A series of recommendations like that. Let us see if we cannot sell it.

Mr. **Ellison**. OK. You have it, sir.

Mr. **Mitchell**. Thank you very much. Thank you both.

I understand Mr. Joseph James is here, the executive director for the Philadelphia Citywide Development Corp.

Are there any other scheduled witnesses who are on the list who are now here that were not here earlier?

If not, Mr. James, you will be the wrapup witness. Thank you; I just received a copy of your testimony.

TESTIMONY OF JOSEPH J. JAMES, EXECUTIVE DIRECTOR, PHILADELPHIA CITYWIDE DEVELOPMENT CORP.

Mr. **James**. Congressman Mitchell, members of the House Committee on Small Business. No. 1, let me thank you for the time that you are spending in Philadelphia to discuss the problems of small and minority businesses. You should be receiving, now, copies of a document from me, portions of which will be my testimony today and the remainder is for your information and I think it will give you some additional information about the status of minority business and small business here in Philadelphia.

I would like to first talk about the particular area that you have asked me to discuss today, or to the availability of equity and debt capital for minority business enterprises and the effectiveness of development assistance for local small businesses. Just before I do that, I would like to very quickly run through—and you will find this on page 2 of the document: Why small business is so important to the national and local economy.

As was mentioned earlier, in the 1979 David Birch MIT study entitled "Job Generation Process" one conclusion was that small firms, those with 20 or fewer employees, generate 66 percent of all new jobs in the United States.

George Gilder, one of the Reagan administration's economic advisers, stated in a chapter of his book "Wealth and Poverty," "It is small and high technology businesses that generate most of the employment in America." In addition, small firms provide more than 80 percent of the jobs for young blacks and other disadvantaged citizens.

As far as Philadelphia is concerned, Richard A. Doran, city representative and director of commerce, acknowledges "that 9 out of every 10 jobs in this city are produced by businesses with 50 or fewer employees."

In the area of innovation and technology, small businesses' contribution to innovation and technology development are also increasingly understood. The April 1980 report of the White House Commission on Small Business stated that "Small business has demonstrated incomparable innovative fertility." The National Science Foundation study disclosed that "For every R. & D. dollar, small companies produce 4 times more innovation than medium-sized companies, and 24 times the innovation of large companies."

Faster market adaptability: A seldom-raised point about small business, which should interest the Reagan administration's reliance upon a private sector response to the President's economic programs, is the significantly shorter response time to economic stimuli that small businesses have. John Sower of the National Development Council says that "Smaller businesses can respond far more quickly to incentives and opportunities in the market than larger corporations operating from multiyear capital investment budgets and bureaucratic organizations."

Because of the significant potential of small business in the areas of job creation, innovation and technology, and the ability to respond to economic stimuli, it is clear that small business development should play a key role in any Federal, State, or local economic recovery program.

It is with these special capabilities of small business in mind that I would like to comment on the problems faced by small and disadvantaged businesses in the Philadelphia area, and suggest solutions to improve Federal programs designed to assist small firms. Some of these recommendations are listed in the body of the document that I have presented to you.

Mr. MITCHELL. What page?

Mr. JAMES. The pages following that introductory remark. I will comment some on those as I go along.

I would like to really hone in on the topic that I was assigned to cover today, which is the issue of equity and debt capital for minority business enterprises and the effectiveness of development assistance for local small businesses.

I would like first to give a background of Philadelphia Citywide Development Corp., which might give you some insight into the basis upon which I make my comments. PCDC has been providing financial, technical, and managerial assistance to small and minority businesses since April 1977. This large and comprehensive economic development corporation is a major actor in the city of Philadelphia's economic development network, especially in the last year or so. To Philadelphia's minority business community, PCDC has become the economic development agency to turn for assistance. Overall, approximately 60 percent of PCDC's clients have been minority firms, out of the more than 600 businesses that we provide some form of assistance to each year.

During calendar year 1980, PCDC arranged more than $15 million in financing for more than 70 firms. More than 50 percent of these firms were minority-owned.

In 1981, PCDC arranged more than $10.4 million in financing for more than 80 firms, of which more than 60 percent were minority-owned firms.

While PCDC has always excelled at securing financing for small businesses, there was a drastic increase in the dollar amount arranged for minority firms in 1981. Minority business financings increased from $2.8 million in 1980 to approximately $7.6 in 1981. Also, the relative number of loans to minority firms rose from 53 percent in 1980 to more than 65 percent in 1981, in spite of a weakening economy and tight credit market.

Both the general type minority firm and the minority contractors showed increased involvement with PCDC in 1981. There are some exhibits that those of you that have documents can make note to, more carefully explain those figures.

These business development efforts have also had a substantial impact on local employment. The services provided during calendar year 1981 resulted in the retention of 972 jobs and in the creation of 1,163 new jobs. Of this total of 2,135 jobs retained or created, 94 percent were low and moderate-income jobs. Based on followup employment data, approximately 75 percent of the jobs projected to be created at the time of financing in 1980 did, in fact, become permanent jobs.

Although PCDC has frequently used portions of its nearly $2 million in internal lending capability, which by the way, we just about recently acquired, of the total of the $43.5 million in small business financing arranged by PCDC in the last 5 years, 50 percent has been provided by a small number of private local financial institutions.

I might add that, although we are pleased by the high ratio of private to public financing, PCDC would like to see a larger number of private financial institutions working with us to assist small and minority businesses. Greater participation in the private sector is key to any meaningful long-term source of debt and equity capital for small businesses.

Securing funds from the private sector institutions is the key step toward genuine economic parity for minority businesses. I am on page 23 for those of you who are following me.

As Government sources of loan funds shrink, the private sector becomes even more important. So that PCDC can continue its extremely positive relationship with the Philadelphia banking community, and thus better serve small and minority businesses in Philadelphia, PCDC conducts an annual survey of local financial institutions. We do that in a brokering and an inventory sort of a function.

This survey is called the financial institution analysis. It helps us keep current on the lending practices and resources of approximately 25 local institutions. It also keeps them informed that PCDC helps them efficiently finance their small and minority business customers.

PCDC prepares a questionnaire which requests information on the amount, term, and kinds of financing that a particular institution is making available. The structure of the institution is also analyzed so that our staff knows who to go to for various kinds of financing.

Because each bank has what it considers to be its own lending area or community, PCDC also requests the institution's Community Reinvestment Act statement. The CRA statement has been very helpful in also uncovering special interests or investment initiatives that most institutions have.

PCDC then arranges meetings with the officers at the highest possible level, occasionally the President, in the institutions being surveyed to discuss ways in which to foster greater support for small and minority firms.

PCDC also meets regularly with local SBA officials to learn from them how active in SBA-guaranteed lending programs the local institutions are, by reviewing the SBA list of bank participation, which is shown in exhibit III–C. You will find that in your materials.

Also included as private sector capital sources are small business investment corporations, SBIC's, and minority enterprise small business investment corporations, MESBIC's. These sources of venture capital are very limited in number in Philadelphia, which is one reason why PCDC is chartering its own SBIC. However, PCDC has contacts with the two MESBIC's, Alliance Enterprises, Inc. and Greater Philadelphia Venture Capital Corp. and with the Capital Corp. of America, which is a SBIC; the former two are MESBIC's.

The next area of discussion is the availability of debt capital for minority business enterprises.

The results of PCDC's financial institution analysis and our day to day experience in looking for debt financing for small and minority firms indicates that debt capital is generally available for viable firms. Of course, existing firms are treated preferentially by lenders. Startups are often more difficult to finance. About 30 percent of the financings we have arranged have been in the startup category, however.

The real problem is that private financial institutions require an interest rate at 2 to 3 points above prime and also, generally prefer the shortest possible term. The resultant debt service requirement prices many businesses, projects and ventures out of the market.

This situation has been or will be exacerbated by four developments in the SBA lending programs. The first blow came when SBA increased its direct lending rate from approximately 9 percent to more than 15 percent.

The second blow will be the elimination of SBA direct loans, as proposed by the Reagan administration fiscal year 1983 budget.

The third blow will also appear in the fiscal year 1983 budget and will result in a 10-percent decrease in SBA's loan guarantee authority at the very time that the Reagan administration is trying to encourage more private sector initiative.

The fourth blow will be the reduction of SBA's section 503 certified development loan program, which have provided an excellent means of providing small firms with long term, and I want to emphasize long term, moderate rate loans for real estate and equipment.

In this program private financial institutions were required to come up with 50 percent of the total cost of a project, the SBA sold debentures for 40 percent of the deal, and the certified development company was required to provide the remaining 10 percent.

At PCDC we have a companion corporation that does SBA 503 loans for us. The program is excellent and needed because it leveraged private sector participation and encouraged financial institutions to become long-term lenders to small business.

As mentioned earlier in this document, small businesses and especially minority businesses depend almost exclusively upon debt as a source of outside capital for their firms. These developments in SBA funding will have a devastating effect on minority firms.

Cuts in other Federal business development programs, such as EDA and HUD, will have adverse impacts too, but most of the financing for minority firms in this area has been bolstered by SBA-related programs.

I have some suggestions: I would like to offer the following suggestions as a means of stabilizing or increasing the availability of debt capital to minority firms. The cuts in the SBA programs, mentioned above, should be postponed.

Item No. 2: All SBA guaranteed bank loans should provide interest-free earnings to the lending institutions involved. This will accomplish several things. The tax-free rate would probably be lower than SBA's current direct lending rate. Financial institutions will receive an incentive to become involved in SBA programs that they have heretofore considered bothersome. This is especially important in an effort to increase private sector participation. All of the private lender loans in SBA's section 503 certified development company program should also receive tax-free treatment.

The suggestions made in paragraphs 2 and 3 above will comply with the Reagan administration's desire to reduce Federal direct lending, and in turn stimulate private sector initiative in local development. The tax-free treatment that I am talking about could probably be achieved with a minimum of additional paperwork, unlike some of the industrial revenue bond legislation, because of the extensive documentation already in SBA's program requirements.

Item No. 3: Availability of equity capital for minority business enterprises. As mentioned earlier in this presentation, there is perceived to be a shortage of venture capital in the Philadelphia area, especially for minority firms. Even though the two MESBIC's in the area—Alliance Enterprises, Inc., and Greater Philadelphia Venture Capital Corp.—are actively considering equity or venture deals from the Philadelphia area, a relatively small proportion of their investments are in fact in the Philadelphia area. A significant amount of investments are outside of the Philadelphia area.

Also, the investment frequency of these two MESBIC's has generally been less than five deals a year. I repeat, less than five deals a year, due in part to limitations on staff and a very selective investment policy which has excluded the ordinary growth firm from consideration.

Also, the cost of borrowing from a MESBIC or SBIC—and "borrowing" is in quotes, whether it be a loan of some kind of near equity investment—is much higher than bank loans that we discussed earlier. Traditional MESBIC's and SBIC's are looking for an effective rate of return of approximately 30 percent. To give you an example of some efforts on the other side, or to soften this impact, PCDC has used a $500,000 pool of Community Development Block Grant funds to make subordinated loans and, on some occasions, venture-type loans.

We are currently applying for an SBIC license in order to become more aggressive in this area. We have the ability to subsidize the administrative and staffing cost of what we call Philadelphia Small Business Investment Corp., which is our proposed SBIC, in order to permit us to make more loans at a lower rate to more businesses.

In regards to better understanding the flow of resources of private financial institutions to small and minority businesses, this is another suggestion. Bank regulators should require more detailed reporting on the small and minority business lending patterns of local financial institutions. I would like to give that a little caveat and say that even though the Philadelphia area banks were very responsive to our financial institution analysis, this may not be the case on a national basis.

The strengthening of the Community Reinvestment Act regulations would be very helpful in this particular area, and probably require a minimum of legislation to do that.

I have some additional suggestions in the area of venture capital. In an effort to increase the availability of equity and venture capital for minority and small firms, I would suggest the following: That MESBIC's and SBIC's in a particular area be required, and I emphasize required, to invest a certain percentage of their funds in the area in which they are based.

Item No. 2: In return for this requirement, the Federal Government would facilitate the amount of private investment in what I call locally responsive MESBIC's and SBIC's, by providing new investors in such entities with tax credits equivalent to the value of the investments made by individuals and corporations who provide additional capital to these MESBIC's and SBIC's.

I offer a statute from the State of Maine as an example of how to implement such a program: Legislation creating the Maine Capital Corp. is shown in exhibit III-D, which follows.

Just a side comment on this particular statute. It is very effective encouraging a number of local financial institutions, or financial institutions within the State of Maine to make investments in a State-sponsored small business investment corporation that was geared to improving the economy of the State of Maine. I think a similar kind of thing could be done or should be done in many of the depressed areas of this country.

Moving on to page 31, I would like to draw my comments to a close and suggest that my overall suggestion is that Federal programs which facilitate financing for small and minority businesses should be closely coordinated between the various Federal agencies that are involved. The beginnings of such coordination occurred in the federally sponsored neighborhood business revitalization program. The NBR program targeted, on a local level, the development programs of EDA, SBA, and HUD with an emphasis on complementary assistance to small businesses. A similar interagency agreement should also include the Minority Business Development Agency as a partner.

In regards to the effectiveness of development assistance for local small businesses, please note my comments on the Hunting Park West, which is a section of the city that is under some consideration as an enterprise zone. There was a study done there and I have made some comments in the earlier part of the document that I am presenting to you today.

If it is your pleasure, I can at least detail some suggestions I made there, if there is time.

Just one last request, as I close. Again, I appreciate and welcome the participation of this committee here in Philadelphia. I think it would be very helpful to us who work in this city to have a copy of the testimony, if that is at all possible, because I think it will help us do a better job at what we do.

I am free to answer questions or respond in any way.

Mr. **Mitchell**. You meant a copy of the transcript of the hearing?

Mr. **James**. Yes, sir.

Mr. **Mitchell**. Sure. We will be prepared to do that.

Mr. **James**. Thank you.

Mr. **Mitchell**. Thank you for your testimony. It is always very good when you get specific recommendations. I am not suggesting that I or any other member of this hearing would just blanketly accept your recommendations, but certainly it is provocative and it is encouraging when we get specific recommendations as to how to tackle certain problems. At first reading, many of your recommendations sound very good. I was unaware of the situation of the Maine legislation and I do think that if you have a MESBIC or an SBIC located in the State of Delaware it ought to get some priority for serving Delaware.

Mr. **James**. Sure.

Mr. **Mitchell**. I also want to congratulate you on some of things that you have done. Do you have a copy of the survey of your banks in terms of their cooperating with the guarantee loan program? Do you have any breakout on what they did with reference to the Community Reinvestment Act?

Mr. **James**. I would like to comment on that study that we do have a copy of. We have found that if we kind of enter into an agreement with the banking community, that we keep it as a sort of "private document between ourselves." They have shown a greater willingness to share that information with us.

The Community Reinvestment Act information, of course, is public and available to everyone. There are certain competitive elements in what we are requesting—the information that we request—that one bank might use against another. However, we have found it extremely helpful to us getting inside and getting to the right person.

Mr. **Mitchell.** The only reason I ask was if you could do a breakout in terms of cooperation with the bank guaranteed loan program. I just could not understand why you would not have a similar breakout, but we can get that.

Mr. **James.** Excuse me, the information relating to the guarantee program is included in the information that I presented today. It does list the banks in the Philadelphia area.

Mr. **Mitchell.** Yes. That is what I am saying, that you have that. But you did not do anything with the Community Reinvestment Act, a breakout of that, and you have explained why.

Mr. **James.** OK.

Mr. **Mitchell.** OK. Now, I want to congratulate you on all the good things that you are doing, but sometimes at night when you go to bed, are you not a little troubled? Here you are knocking yourself out to clearly foster the development of viable minority businesses and small businesses in this area. And yet, all day long we have heard testimony about what appears to be a virtual exclusion of minority businesses from doing business with the city of Philadelphia. Does that trouble you a little bit?

Mr. **James.** It certainly troubles me that there seems to be a problem between the city and the minority business community in terms of procurement. I would like to point out very clearly, however, that that particular responsibility for procurement and affirmative action on the part of the city is not within the confines of the organization that I represent today. However, I am very concerned about that.

Mr. **Mitchell.** Even though it is not within the confines, it just seems to me that you might really be hurting your own work. For example, you have stepped up your loans to minority businesses and that kind of thing. Yet, these same firms cannot get a shot at any business with the city.

Mr. **James.** I would like to comment on that some, too, and say that I think the personal involvement and the personal commitment, which I think you touched on in terms of various public officials and bureaucrats is very important. In my particular organization, we have greatly increased the amount of contracts that we have with minority firms in Philadelphia. They are very significant when you compare the dollar amount of those particular contracts with my total budget.

Mr. **Mitchell.** That is what I was lauding you about. I think that is exemplary and I think it is excellent, but it just seems to me that for as long as any one of those firms to which you might have made a loan cannot get city business, you are really negating the possibility of your loan money having its maximum utilization. It just seems to me that that is at least a possibility of something to happen.

Mr. **James.** Well, that is very true. That is correct.

Mr. **Mitchell.** OK. Mr. Staton had to make a train.

Mr. Weber?

Mr. **Weber.** I am very impressed with your testimony. I would be very interested in your observation as to whether your city needs a black-owned banking institution. We have a little bit of the same feeling in Toledo. That is why I was wondering how you would feel about that. In Toledo, I can say we are ambivalent and there are those that are trying to organize one without a great deal of success. But I am not sure how really discouraged they are.

Mr. JAMES. As a matter of pride in meaning a black Philadelphian, I would say that it would be wonderful for the city to have a black financial institution, a commercial bank.

On a practical matter, however, when you are starting such an institution, its assets are going to be relatively small. Then to demand it to do those kinds of things that the financial community in Philadelphia that I believe should do on a more active basis, might be unfair in the sense of being counterproductive in the sense of putting a burden on an institution that is probably going to be capitalized as a lesser amount than it should be.

I think that is a step in the right direction and it certainly could be a source of encouragement to black Philadelphians, as well as to stimulate the balance of the private sector to do more.

Mr. WEBER. I take it you do not assign a terribly high priority to that particular project.

Mr. JAMES. I think I have outlined basically how I feel about it. I would like to support it and I would be very supportive of it, but I guess I am looking for increased response out of the existing financial community, as well as some additional kinds of minority-owned institutions also.

Mr. WEBER. Thank you.

Mr. SMITH. I will keep it brief, because we are getting late. I want to commend you on the fine statement, because it was very comprehensive. I was happy to see that of those 1,163 new jobs that were created and the 972 jobs that were retained, you found, when you did your followup polling that 75 percent of those became permanent. I think that is an outstanding record. Something to be proud of. That new jobs creation was accomplished through your efforts.

I was also intrigued when you were talking about increasing the availability of debt capital and you suggested interest-free earnings to the binding institutions that were involved. I think that is something that one of our subcommittees might look into.

Mr. JAMES. Excuse me, that is a typo, and we spent a lot of time preparing this and trying to get it to you today. I regret that I was late, but I had a closing on, believe it or not, an SBA 502 deal this afternoon. But I wanted to get here. That should be "lending institution," and not "binding."

Mr. SMITH. Oh, OK; I just read it. I think it is something that we should look into on the committee, and you are one of those who did make specific suggestions and we do thank you for that.

Mr. MITCHELL. Congressman Gray?

Mr. GRAY. Thank you, Mr. Chairman. I do not have any questions. I think the testimony has been thorough and I want to commend Mr. James for his continued struggling, as you pointed out, in light of the results as seen in local and State and Federal Government. Thank you.

Mr. **Mitchell.** I thank you too, Mr. James. The staff will see to it that you get a copy of the complete hearing here today. Better send them a little note to remind them.

[Mr. James' prepared statement and attachments follow:]

Prepared Statement of Joseph J. James, Executive Director, Philadelphia Citywide Development Corporation

THE IMPORTANCE OF SMALL BUSINESS TO THE NATIONAL AND LOCAL ECONOMY

Why is so much attention being given to the conditions and needs of small business? Please note the following reasons:

Job Creation

In 1979, David Birch of MIT wrote a report entitled "The Job Generation Process" emphasizing the importance of small business in creating new jobs. One conclusion was that "small firms (those with 20 or fewer employees) generate 66% of all new jobs generated in the U.S."

George Gilder, one of the Reagan Administration's economic advisors, stated in a chapter in his book, Wealth and Poverty, "It is small and high technology businesses... that generate most of the employment in America." ..."In addition, small firms provide more than 80% of the jobs for young blacks and other disadvantaged citizens.

As far as Philadelphia is concerned, Richard A. Doran, City Representative and Director of Commerce, acknowledges "that 9 out of every 10 jobs in this City are produced by businesses with fifty or fewer employees."

Innovation and Technology

Small businesses' contribution to innovation and technology development are also increasingly understood. The April 1980 report of the White House Commission on Small Business stated "small business has demonstrated incomparable innovative fertility. The National Science Foundation study disclosed that, for every R&D

dollar, small companies produce four times more innovation than medium-sized companies and 24 more times innovation than large companies."

Faster Market Adaptability

A seldom raised point about small business, which should interest the Reagan Administration's reliance upon a private sector response to the President's economic programs, is the significantly shorter response time to economic stimuli that small businesses have. John Sower, of the National Development Council, says, "Smaller businesses can respond far more quickly to incentives and opportunities in the market than larger corporations operating from multi-year capital investment budgets and bureaucratic organizations."

Because of the significant potential of small business in the areas of job creation, innovation and technology, and the ability to respond to economic stimuli it is clear that small business development should play a key role in any federal, state or local economic recovery program.

It is with these special capabilities of small business in mind that I would like to comment on the problems faced by small and disadvantaged businesses in the Philadelphia area, and suggest solutions to improve Federal programs designed to assist small firms.

Hunting Park West Study

I would like to comment on the results of a recent study by the Philadelphia City Planning Commission into the problems of small industrial firms in the Hunting Park West section of this City.

These problems can be grouped into the following categories:

1. Limitations of existing plant & equipment.
2. Limited supply of financial capital.
3. Managerial & Technical Expertise needed.
4. Qualified local labor needed.

According to the Planning Commission, "a variety of profitable and potentially profitable enterprises are being impeded or are failing to come to fruition due to the lack of necessary financial and human capital inputs."

The four problem categories listed above have several aspects that are general to businesses in the Philadelphia area. A little more detail might prove helpful to a broader understanding.

1) Limitations of Existing Plant & Equipment

Most of the structures in Hunting Park West are older multi-story loft buildings. According to the Planning Commission, "Multi-tenant loft buildings are a fragile entity, especially in terms of the security of resident firms. These buildings often have alot of management problems..."

Federal programs and tax regulations have, in the past, favored new plant construction rather than recycling existing plant. Recent regulations which have offered increased tax credits for rehabilitation of existing structures should be continued and expanded. Also, tax regulations which would facilitate to acquisition of unused or obsolete space to permit easier business expansion should also be established.

2) Limited Supply of Financial Capital

According to the Planning Commission existing firms in Hunting Park West have, "limited internal financing capabilities," and "limited supply of certain forms of financial capital available to ventures which are perceived as relatively less profitable and/or more risky by private financial intermediaries."

These businesses are not able to finance needed improvements or expansion out of internally generated funds. They therefore must rely upon private or government sources of capital. The FY83 reductions of SBA's direct and guarantee loan programs should be eliminated. The cost of borrowing funds has been very high, and the rates have been subject to wide variations. Because small business must rely heavily upon debt financing from banks, they are extremely vulnerable to fluctuations in the prime rate, upon which loans to them are based. A two-tiered prime rate and a Federal government subsidy of rates in times of high interest would have a stabilizing impact on small firms.

The lower prime rate for small businesses in depressed urban areas could be facilitated by allowing financial institutions to earn interest, tax-free, on loans made to small businesses, and by permitting these tax-free loans to be guaranteed by the SBA, or other appropriate Federal agencies.

Venture capital is generally not available to the average Philadelphia area firm. The Planning Commission indicates, "that there is generally a lack of venture capital for the "ordinary" small business. The relatively short-term/high-return expectations of the typical venture capitalist tend to exclude these ventures from formal sources of equity finance."

Federally-sponsored venture capital programs should be expanded rather than decreased, and the expansion should be targeted for depressed area development. Private investment in depressed urban areas, or for minority firms, should be encouraged by providing federal tax credits to those who would invest in Small Business Investment Corporations that target their investments in depressed urban areas, or for minority firms in a particular area.

3) Managerial & Technical Expertise Needed

For those of us familiar with the need of minority firms for management and technical assistance, it was interesting to note that majority-owned firms in the Hunting Park West area also needed assistance in this area. The City Planning Commission states that, "technical assistance has proven to be one of the most cost-effective job creation tools in the American Street Corridor Program. In this program the 18 firms receiving such assistance have shown an average 30% increase in profitability."

The Planning Commission further indicates that there is, "limited managerial and financial expertise among local entrepreneurs in developing and presenting business plans to financial intermediaries." A solution for this situation would be for the SBA's Management Assistance Program to get away from the generalized classroom or seminar approach, and concentrate instead on providing subsidies for individualized consulting to small businesses, in the field. Also, there seems to be a belief that small businesses prefer consulting services from private sector, or quasi-public sources who are active in this areas and knowledgeable about local business conditions.

4) Qualified Local Labor Needed

"A comprehensive job training approach that is responsive to real industrial needs is what is called for. Such an effort should include entry position training and retraining for existing slots in both large and small firms," says the Planning Commission.

Small businesses throughout the Philadelphia area complain about the difficulty in securing a quality labor pool that is located near their place of operations. This is especially true for inner-city locations. Modifications of the CETA Program to encourage the determination of specific private sector job openings in a particular area and improved methods of intaking and training local residents, including customized upgrading and entry level placement with an effective easy-to-use On The Job Training Program and grants to small firms, rather than tax credits, for hiring disadvantaged individuals.

While the examples cited in the preceeding paragraphs tend to be common to many small firms in the Philadelphia area, additional matters of concern should be mentioned.

Environment of Minority Business in the Philadelphia Area

a. Minority Population in Target Areas
General Business Observations

Minorities comprise approximately 23 percent of the population of the 5-county Philadelphia area. The largest concentration of minorities is located in Philadelphia County where minorities comprise approximately 44 percent of the total population. Minorities represent 9.3 percent of the total population in Delaware County and 8.8 percent of the total population in Chester County. Montgomery and Bucks Counties have minority populations of 6.4 percent and 3.9 percent respectively.

Table A

County	Total Pop.*	Non-White Pop.**	Pct-Non-White Pop.
Philadelphia	1,668,200	705,126	42.3%
Bucks	483,800	18,718	3.9%
Chester	320,100	28,358	8.8%
Delaware	552,200	51,560	9.3%
Montgomery	644,600	41,078	6.4%
TOTAL	3,668,900	844,840	23.0%

Sources: * Population Summary for Philadelphia - Census '80 Philadelphia City Planning Commission.
** 1981 Survey of Buying Power Sales and Marketing Management, July 27, 1981

The 1980 census indicates that at least 4.1% of Philadelphia County's population is Hispanic, 38.9% Black and 52.3% White. A recent critical review of the census data notes that the numerical frequencies in the "other" category closely correlated with census traits in which there is a very large number of "persons of Spanish Origin" and probably reflect a significant number of misclassified and uncounted persons of Hispanic origin. The number of Hispanics in Philadelphia, (assuming the accuracy of the census data in all other respects) is probably around 111,429 or 6.9% of the total population.

Individuals in the Black and Hispanic community who eschew the Census Bureau's methodology for obtaining population data argue that Blacks and Hispanics have been dramatically undercounted.

	1970	1980	% of 1980 Population
Hispanic	44,653	63,570	4.1%
Black	653,791	638,878	38.9%
White	1,234,064	919,514	52.3%
Other	16,101	66,248	4.7%

PCDC recognizes that is a sizeable minority population in the four suburban counties that needs to be served. The suburban minicipalities where sizeable minority populations exist include but are not limited to: City of Chester (Delaware Cty.), City of Coatesville (Chester Cty.), Borough of West Chester (Chester Cty.), Norristown Borough (Montgomery Cty.), Abington Township (Montgomery Cty.), Darby Borough and Township (Delaware Cty.), Yeadon Borough (Delaware Cty.), Bristol Towhship (Bucks Cty.), and Warminster Township (Bucks Cty.).

Exhibit II.A shows the distribution of the minority population in Philadelphia County in 1980 by Police District.

The Black Population in Philadelphia: General Business Observations

Philadelphia has a total of 4,418 black-owned firms with annual gross receipts of $172,273,000.* However, Philadelphia, which is the nation's fourth largest city based on total population, ranks only seventh and sixth respectively in terms of the number

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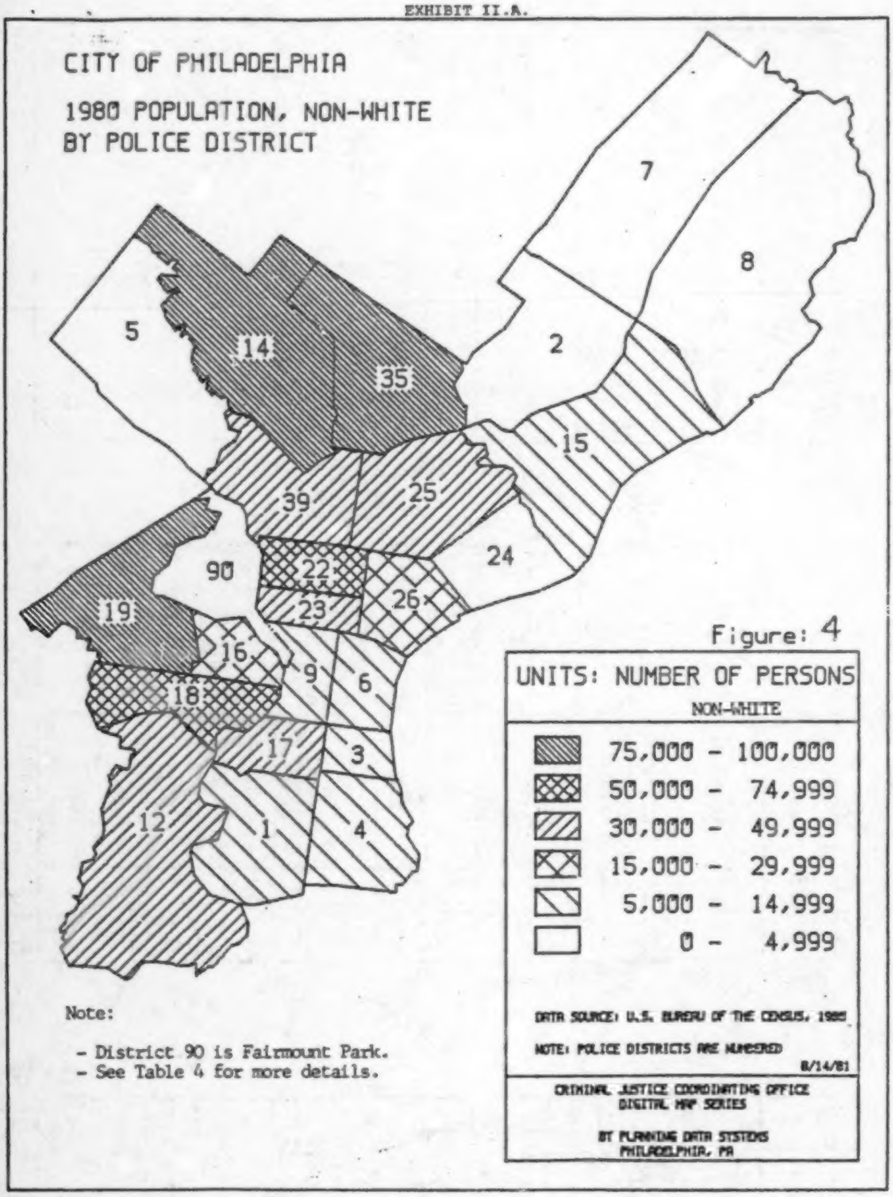
* "1977 Survey of Minority-Owned Business Entrepreneurs, Black, "U.S. Dept. of Commerce, Bureau of the Census

EXHIBIT II.A.



CITY OF PHILADELPHIA

1980 POPULATION, NON-WHITE
BY POLICE DISTRICT

Figure: 4

UNITS: NUMBER OF PERSONS

NON-WHITE

▨	75,000 - 100,000
▦	50,000 - 74,999
▨	30,000 - 49,999
⊠	15,000 - 29,999
⧅	5,000 - 14,999
☐	0 - 4,999

DATA SOURCE: U.S. BUREAU OF THE CENSUS, 1980

NOTE: POLICE DISTRICTS ARE NUMBERED

8/14/81

CRIMINAL JUSTICE COORDINATING OFFICE
DIGITAL MAP SERIES

BY PLANNING DATA SYSTEMS
PHILADELPHIA, PA

Note:

- District 90 is Fairmount Park.
- See Table 4 for more details.

EXHIBIT II.A. (Con't)

Table 3

1980 White Population		
Rank	District	White Population
1	15	125,551
2	8	101,144
3	2	96,516
4	7	80,786
5	25	69,695
6	35	55,857
7	4	53,989
8	5	43,605
9	12	40,208
10	9	38,246
11	24	37,901
12	14	37,759
13	19	36,113
14	1	35,937
15	26	33,624
16	3	23,717
17	18	22,366
18	6	17,011
19	17	12,925
20	39	12,206
21	16	4,359
22	22	1,908
23	23	1,677
	PARK	15

Table 4

1980 Non-White Population		
Rank	District	Non-White Population
1	35	96,007
2	19	78,277
3	14	77,444
4	18	66,015
5	22	64,674
6	39	49,737
7	12	46,234
8	25	39,538
9	17	37,233
10	23	35,928
11	26	26,619
12	16	25,649
13	6	10,489
14	1	9,608
15	3	9,326
16	9	9,140
17	15	6,765
18	4	5,577
19	8	4,711
20	5	1,903
21	7	1,779
22	2	1,519
23	24	843
	PARK	80

Table 5

Population Changes (positive to negative)		
Rank	District	% of Change
1	7	+ 6.93%
2	8	+ 1.13%
3	35	- 3.40%
4	6	- 3.90%
5	5	- 8.50%
6	12	-10.13%
7	4	-11.32%
8	18	-11.52%
9	14	-11.57%
10	2	-12.32%
11	15	-13.29%
12	25	-13.85%
13	9	-15.00%
14	19	-15.44%
15	1	-15.79%
16	24	-17.29%
17	39	-19.87%
18	3	-21.06%
19	16	-25.98%
20	17	-26.23%
21	22	-27.34%
22	23	-28.08%
23	26	-28.29%

See Table 5a for details.

of black-owned enterprises and gross sales receipts of black-owned firms.** Clearly, black business development still has a long way to go in Philadelphia.

Approximately eighty percent of the black-owned firms in Philadelphia are concentrated in the retail trade and selected trade industries. This evidences a clear need for black business development and diversification into industries such as manufacturing, construction, wholesale trade, and transportation. However, this existing pool of entrepreneurs should be nutured so that they and their offspring can provide the entrepreneurial talent needed to allow minority participation in these other industries listed above.

Adding to this the 3,265 operators of the balance of black-owned firms gives a total employment of 6,464 persons in such firms.***

In a city where black unemployment is roughly 21 percent as opposed to 6 percent white unemployment, and where black household income is $7,377 as opposed to $10,225 for white households, blacks could benefit greatly by becoming manufacturers, wholesalers, and contractors. However, business knowledge and opportunities must be made available to help develop black business people.

The Spanish Origin Population: General Business Observations

The Spanish origin population, like the Black population, has a growth rate that is higher than the national average. The 1980 Spanish-origin population was 12,046,000, according to the U.S. Census Bureau. Growth exceeds 20% a year.

** "Minority Business and City Economic Policies," State of Black Philadelphia, Urban League 1980

***"1977 Survey of Minority-Owned Business Enterprises, Black," U.S. Dept. of Commerce, Bureau of the Census

It has been observed that Hispanics are not being absorbed by mainstream America culture, but rather that they are tenaciously retaining their language and traditions. Hispanics tend to adhere to a larger extent than any other immigrant group, to the customs, language, and social views of their cultural past. Because of this, Hispanics generate different desires both socially and economically; they manifest a strong preference for their own stores where they can get foods that are part of their exclusive diet, like tortillas, black beans, etc.; for their own movie houses where they make tremendous box office successes of movies of which the rest of the viewing public has never heard; for their own entertainment; music and news programs which are provided by Hispanic radio and television stations. According to Minority/Ethnic Media Guide, Spanish is the second most widely used language in the United States.

The bulk of the Hispanic Society resides in Philadelphia, although there are other centers of substantial Hispanic presence in other areas such as the City of Chester (Delaware Cty.) and in the Borough of West-Chester (Chester City).

The vast Majority of Philadelphia's Spanish speaking population lives within the section known as North Central Philadelphia. 90% of this population consists of Puerto Ricans. However, there are also a significant number of Cubans, Mexicans, Columbians and other Central and South American individuals in this group. The 1980 census included a section entitled "Census Tracts with 400 or more persons of Puerto Rican birth or parentage." Eighteen such census tracts occurred in North Central Philadelphia.

Seventy-five percent of the reported Philadelphia Spanish speaking population lives in the North Central Philadelphia area. The geographic boundaries begin at the point where Spring Garden intersects with Fairmount Park. This constitutes the southwestern corner to the Delaware River which is the eastern corner of the community, running north to Roosevelt Boulevard, along Roosevelt Boulevard to Broad Street, Broad Street being the western border of the community.

The North Central Philadelphia area contains an estimated population of 100,000 Hispanics. This area has a population density of just under 40,000 people per square mile, which is extremely high when compared to an average population density for the rest of Philadelphia of 15,355 per square mile. The area comprises approximately 17% of the total population of the City of Philadelphia.

The only comprehensive survey of minority business containing breakdowns in various business categories by ethnicity for the Philadelphia Standard Metropolitan Statistical Area (SMSA), is the "Suryey of Minority-Owned Enterprises" published by the U.S. Department of Commerce in 1977. The survey indicates that in 1977 there were a total of 416 Hispanic firms with combined gross receipts of $26,036,000 in the Philadelphia SMSA. The survey estimates that out of these firms, 80 employed a total of 339 persons (average of 4.2 per firm) and that the average receipts per firm was $213,683. The remaining 336 businesses (81%) had average gross receipts of $26,568.00.

Many Hispanics contend that the 1977 survey did not completely reflect the state of Hispanic businesses in 1977 and that, of course, it does not reflect the state of affairs today. For example, in the last nine months of fiscal year 1981, the Spanish Merchants Associaction (SMA) serviced 27 businesses with total gross receipts of $5.6 million, or average gross receipts of $220,000 each. In addition, the Association submitted 20 loan proposals on behalf of Hispanic firms which were projected, if approved, to generate gross receipts equaling almost one-half of those generated by all existing

Hispanic businesses in 1977. It is SMA's estimation that we can derive a somewhat more accurate picture of the state of Hispanic businesses in the Philadelphia SMSA by tripling the 1977 figures.

In regards to the characteristics of Hispanic businesses, the survey indicates that about 93.1% of the firms owned by persons of Spanish origin operate as sole proprietorships. Corporations account for only 2 percent of the total firms and 23.7 percent of the gross receipts, while partnerships, the third and final legal form, accounted for 4.9 percent of total firms and 11.5 of the gross receipts.

The Asian American Population in Philadelphia: General Business Observations

Asian-Americans (and other minorities not classified as black or Hispanic) own 1,737 businesses in Philadelphia with Gross Sales Receipts of $29,447,000. However, 90 percent of these firms are concentrated in retail trade and selected services. Firms with paid employees number 138 and have a total of 365 employees, while firms without paid employees number 599. Obviously, given the size and growth of the Asian-American population in Philadelphia, there is a need for increased business activity, especially in industries such as construction, manufacturing, wholesale trade, transportation, and finance/insurance/real estate.

"In recent years, many vacant stores in black and other neighborhoods in Philadelphia have been bought or rented by Korean merchants. Dissatisfaction with low-paying, unsatisfactory jobs and an inability to locate meaningful jobs appear to be the main reasons for Koreans seeking business opportunities. The vacant stores left behind in black and other neighborhoods provided the Koreans with suitable business opportunities. The first groups of Koreans who started particular types of businesses such as wig shops, dry cleaning agencies and food markets were viewed as pioneers. In such stores, the husband and wife normally work together while a grandmother cares for the children at home. In order to operate a larger business, they need additional personnel and usually get this help from other relatives. In general, those who have larger stores have several relatives working with them."*

There is a need to provide this growing population with the knowledge, resources and opportunities to successfully operate and develop a business. Philadelphia City-wide Development Corporation (PCDC) has successfully opened avenues of communications with the Asian American community. PCDC periodically employs Mr. Wann Park, Ph.D., Economics, to transalte, communicate and work with PCDC's Korean clients. Mr. Park successfully runs a Health and Beauty Aids business in the Germantown/Leigh Business District which is one of PCDC's Nieghborhood Commercial Revitalization Corridors. Despite PCDC's activities, additional resources are needed to increase Asian-American business activity and sophistication.

b. Location of Viable Minority Business Enterprises in the Philadelphia Area

For the purposes of this discussion a "viable" firm is one whose annual gross sales are over $150,000, or a firm which has more than one paid employee.

PCDC has determined that there are 1,321 viable minority buisness firms within the Philadelphia area, of which 1,172 are minority firms with paid employees and 149 are minority firms without paid employees but with over $150,000 in gross receipts. The distribution of viable firms is presented in Exhibit II.B .

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*Source: The Korean Merchants in the Black Community, Jin H. Yu.
Philip Jaisohn Memorial Foundation, Inc. 1980.

EXHIBIT II.B.

MINORITY BUSINESS POPULATION:
NO. OF VIABLE MINORITY FIRMS BY COUNTY

County	Minority Firms with Paid Employees	Estimated No. of other Viable Firms (2.5% of all Minority Firms Without Paid Employees)*	Estimated Total No. of Firms Viable
Philadelphia	844 (72.0%)	115 (77.2%)	959 (72.6%)
Chester	43 (3.7%)	5 (3.35%)	48 (3.6%)
Delaware	105 (9.0%)	11 (7.4%)	116 (8.8%)
Montgomery	133 (11.3%)	13 (8.7%)	146 (11.1%)
Bucks	47 (4.0%)	5 (3.35%)	52 (3.9%)
TOTAL	1,172 (100%)	149 (100%)	1,321 (100%)

NOTES:

* This estimate is based on the fact that nationwide, 2.5% of minority-owned firms with no paid employees that were allocated by size have gross receipts greater than $100,000.
(Source: "1977 Survey of Minority-Owned Business Enterprises, Summary", U.S. Department of Commerce, Bureau of the Census, p. 224.)

Philadelphia County has 959 viable firms or 72.9 percent of the total number of viable firms in the target area. This clearly reflects the natural concentration of viable minority firms. Montgomery County has 11.1 percent (146 in number) of the total number of viable firms and Delaware County has 8.8 percent (116 in number) of the total number of viable minority businesses. Chester and Bucks Counties have 3.6 percent and 3.9 percent of the total number of eligible minority firms in the geographic area to be served.

Parity ratios of each industry category have been calculated to demonstrate the opportunity for minority firms to expand into new areas and industries.

The formula for the parity ratio is as follows:

$$\frac{\text{Minority Population}}{\text{Total Population}} \lesseqgtr \frac{\text{Number of Establishments (Minority)}}{\text{Number of Establishment (Total)}}$$

The parity ratio demonstrates the inequity between minority business activity in the target area and minority representation in the target area population. In the target area, minorities, in total comprise 23.0 percent of the entire population but own only 8.2 percent of the total number of business establishments.

PCDC recognizes the need to increase minority participation in all industries, but acknowledges an even more severe lack of minority business participation in the manufacturing, wholesale trade and finance/insurance/real estate industries.

Please see Exhibits II.C. and II.D. for Parity Ratios and for the number and percentage of all firms and minority firms by industry category.

III. The Availability of Equity and Debt Capital for Minority Business Enterprises and the Effectiveness of Development Assistance for Local Small Businesses.

In the text of the document that I will submit to this committee today, I have made some general statements about the problems of small and disadvantaged businesses in Philadelphia, and made some suggestions for improving Federal programs designed to help these businesses overcome impediments to their continued development.

In response to a request by your Committee Chairman, Congressman Parren J. Mitchell, I will focus my testimony on the availibility of equity and debt capital for minority business enterprises and the effectiveness of development assistance for local small businesses. I will also have a few recommendations in this area.

A. Background of Philadelphia Citywide Development Corporation (PCDC)

First, I would like to briefly describe Philadelphia Citywide Development Corporation (PCDC) and the role we play in Philadelphia in facilitating small and minority business development, especially in the area of securing and providing financing.

PCDC has been providing financial, technical and managerial assistance to small and minority businesses since April 1977, and this large and comprehensive economic development corporation is a major actor in the City of Philadelphia's economic development network. To Philadelphia's minority business community, PCDC has become the economic development agency to turn to for assistance. Overall, approximately 60% of PCDC's clients have been minority firms, out of the more than 600 businesses that we provide some form of assistance to each year.

During the calendar year 1980, PCDC arranged more that $15 million in financing for more than 70 firms. More than 50% of these firms were minority owned. In 1981, PCDC arranged more than $10.4 million in financing for more than 80 firms,of which more than 60% were minority-owned firms.

While PCDC has always excelled at securing financing for small businesses, there was a drastic increase in the dollar amount arranged for minority firms, in 1981. Minority business financings increased from $2,801,000 in 1980, to $7,571,531 in 1981. Also, the relative number of loans to minority firms rose from 53% in 1980, to more than 65% in 1981, inspite of a weakening economy and tight credit. Both the general type minority firm and the minority contractors showed increased involvement with PCDC in 1981. Note Exhibits III.A. and III.B. More importantly, the relative amount of financing arranged for all firms, both general business and contractors, by PCDC increased from 14% in 1980 to 72% in 1981.

These business development efforts have also had a substantial impact on local employment. The services provided during calendar year 1981, resulted in the retention of 972 jobs and in the creation of 1163 new jobs. Of this total of 2135 jobs retained or created, 94% were low and moderate-income jobs, and based on follow-up employment data, approximately 75% of the jobs projected to be created at the time of financing in 1980, did, in fact, become permanent jobs.

Although PCDC has frequently used portions of its nearly $2 million in internal lending capability, of the $43.5 million in small business financing PCDC arranged in the past five years, 50% has been provided by a small number of private local financial institutions. Although we are pleased by the high ratio of private-to-public financing, PCDC would like to see a larger number of private financial institutions working with us to assist small and minority businesses. Greater participation by the private sectors is key to any meaningful long-term source of debt and equity capital for small businesses.

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Exhibit III.A.

ACTIVITY OF PCDC'S BUSINESS DEVELOPMENT DIVISION, 1976-1981

	1981		1980		1976-1981	
	Number	%	Number	%	Number	%
Total Number of Loans Arranged	65	100.0%	57	100%	258	100%
Race of Owner						
Minority	39	60.0%	30	53%	152	58%
Non-Minority	26	40.0%	27	47%	106	91.1%
Type of Firm:						
Retail	36	55.4%	28	49%	140	54.3%
Service	23	35.4%	23	40%	95	36.8%
Industrial	6	9.2%	26	11%	23	8.9%
Type of Transaction:						
Start-up	21	32.3%	19	33%	88	34.1%
Expansion	38	58.5%	29	51%	132	51.2%
Purchase	6	9.2%	9	16%	38	14.7%
Total $ Amount of Loans Arranged	$9,138,863	100.0%	$14,437,000	100%	$43,519,804	100%
Race of Owner:						
Minority	$6,558,607	71.8%	$ 1,987,000	14%	$17,713,514	40.7%
Non-Minority	$2,580,256	28.2%	$12,451,000*	86%	$25,806,290*	59.3%
Type of Firm:						
Retail	$6,768,958	74.1%	$ 4,454,000	31%	$23,703,980	54.5%
Service	$1,752,805	19.2%	$ 1,432,000	10%	$ 9,613,619	22.1%
Industrial	$ 617,100	6.7%	$ 8,501,000	59%*	$10,202,199*	23.4%
Type of Transaction:						
Start-Up	$5,385,556	58.9%	$ 3,324,465	23%	$17,752,699	40.8%
Expansion	$2,858,107	31.3%	$10,803,235	75%	$18,479,765	42.5%
Purchase	$ 895,200	9.8%	$ 309,300	2%	$ 7,287,340	16.7%

*NOTE: One transaction of $8,000,000 affects dollar volume percentages.

Exhibit III.B.

ACTIVITY OF PCDC'S SMALL CONTRACTOR WORKING CAPITAL ASSISTANCE PROGRAM

	1981	1980	1979-1981
Number of Loans Made to:			
Minority Contractors	35	13	63
Non-Minority Contractors	15	12	34
TOTAL	50	25	97
Dollars Loaned to:			
Minority Contractors	$1,012,924	$374,000	$1,826,924
Non-Minority Contractors	$ 279,828	360,000	$1,235,828
TOTAL	$1,292,752	$734,000	$2,862,752
Houses Rehabilitated by:			
Minority Contractors	75	40	172
Non-Minority Contractors	28	30	81
TOTAL	103	70	253

B. Philadelphia Financial Institution Analysis: Tapping the Private Sector

Securing funds from private sector institutions is the key step towards genuine economic parity for minority businesses. As government sources of loan funds shrink, the private sector becomes even more important.

So that PCDC can continue its extremely positive relationship with the Philadelphia banking community, and thus better serve small and minority businesses in Philadelphia, PCDC conducts an annual survey of local financial institutions, as a brokering/inventory function.

This survey, called the Financial Insititution Analysis (FIA), helps PCDC keep current on the lending practices and resources of appriximately twenty-five local institutions, and it keeps them informed that PCDC helps them efficiently finance their small and minority business customers.

PCDC prepares a Questionnaire, which requests information on the amount, term and kinds of financing that a particular institution is making available. The structure of the institution is also analyzed so that PCDC staff knows who to go to for various kinds of financing. Because each bank has what it considers to be its own lending area, or community, PCDC also requests the institution's Community Reinvestment Act (CRA) statement. The CRA statement has been very helpful in also uncovering special interests or investment initiatives that most institutions have.

PCDC arranges meetings with the officers at the highest possible level, occasionally the president, in the institutions being surveyed to discuss ways in which to foster greater support for small and minority firms.

PCDC also regularly meets with local SBA officials to learn from them how active, in SBA guaranteed lending programs, the local institutions, are, by reviewing the SBA List of Bank Participation, which is shown in Exhibit III.C.

Exhibit III.C.

BANK PARTICIPATION - FISCAL YEAR 1980

PHILADELPHIA DISTRICT OFFICE

Bank	City	# Loans	Dollar Amt.	$
Girard Bank	Philadelphia	59	$6,261,700.00	105,000
Hamilton Bank	Lancaster	19	$3,601,000.00	
American BAnk & Trust	Reading	26	3,304,930.00	
First Eastern Bank	Wilkes Barre	14	2,033,000.00	
Industrial Valley Bank	Jenkintown	9	1,778,000.00	
United Penn Bank	Wilkes Barre	9	1,727,000.00	
Northeastern Bank	Scranton	12	1,720,000.00	
Bucks County B & T	Perkasie	11	1,550,000.00	
Penna Dev. Cr. Corp.	Harrisburg	7	1,317,000.00	
Continental Bank	Philadelphia	10	1,286,000.00	
Union National BAnk	Souderton	7	1,177,000.00	
Commonwealth National	Harrisburg	5	1,094,875.00	
Fidelity Bank	Philadelphia	5	900,000.00	
Central Penn Bank	Philadelphia	5	878,500.00	
Tobias Knoblauch Private Bank	Reading	3	837,000.00	
National Bank of Boyertown	Boyertown	4	680,000.00	
Bloomsburg Bank Columbia Trust Co	Bloomsburg	3	665,000.00	
Commonwealth Bank & Trust	Muncy	5	658,000.00	
First National Trust Bank	Sunbury	6	655,000.00	
First Pennsylvania Bank, N.A.	Philad	10	654,000.00	
Community National Bank	Forest City	2	620,000.00	
Hazelton National Bank	Hazelton	2	585,000.00	
Southeast Pa. Dev. Auth. Dead	Philadelphia	3	531,000.00	
Tri-County National Bank	Middleburg	3	513,000.00	
Northern Central Bank	Williamsport	2	489,000.00	
Lincoln Bank	Philadelphia	3	460,000.00	
First National of West Chester	West Chester	3	459,000.00	
Phila. National Bank	Philadelphia	[illegible]	400,000.00	$ 2000
Liberty Discount and Savings Bank	Carbondale	1	375,000.00	
First National of Leesport	Leesport	2	360,000.00	
First Federal S & L	Philadelphia	1	354,000.00	
First Citizens Nat'l	Mansfield	3	340,000.00	
Southeast National Bank	Malvern	5	310,000.00	
Central Counties Bk.	State College	2	300,000.00	
Solebury National Bank	New Hope	3	281,300.00	
Peoples First National Bank	Hazelton	2	278,000.00	
Glen Rock State Bank	Glen Rock	1	275,000.00	
Bank of Penna.	Reading	4	273,700.00	
Frankford Trust Co.	Phila.	2	255,000.00	
Southern Pa. Bank	York	1	235,000.00	
York B & Trust	York	1	230,000.00	
The Brownstown National Bank	Brownstown	2	215,000.00	
First Valley Bank	Bethlehem	1	210,000.00	
Citizens Trust Co.	Coudersport	1	200,000.00	
Snyder County Trust	Selinsgrove	1	200,000.00	
First National Bank of Minersville	Minersville	1	200,000.00	
Jersey Shore State Bank	Jersey Shore	2	165,000.00	
Farmers Trust Co.	Carlisle	3	152,000.00	
Provident National Bank	Philadelphia	1	150,000.00	
Columbia Cty Farmers Bank	Orangeville	1	125,000.00	
CCNB, N.A.	New Cumberland	2	120,000.00	
First National of Canton	Canton	1	110,000.00	
First National of Allentown	Allentown	2	105,000.00	
Swineford National Bank	Middleburg	1	100,000.00	
Community National Bank	Shamokin	2	95,000.00	
First National of Greater Pittston	Pittston	1	82,000.00	
Hershey National Bank	Hershey	1	80,000.00	
Upper Dauphin National Bank	Millersburg	1	75,000.00	
Nazareth National B & T	Nazareth	1	75,000.00	
Security B & T Co.	Stroudsburg	1	65,500.00	
Provident S & L	Philadelphia	1	63,000.00	
First National of Carbondale	Carbondale	1	62,500.00	
Merchants National Bank	Allentown	1	60,000.00	
Juniata National Bank	Mifflintown	1	54,000.00	
Fidelity National Bank of Pa.	Williamsport	1	52,000.00	
Fidelity Deposit and Disc Bk.	Dunmore	1	45,000.00	
The State Bank of Avis	Avis	1	30,000.00	
Fulton Bank	Lancaster	1	26,000.00	
Peoples National Bank of Susquehanna Cty.	Halstead	1	20,000.00	

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Also included as private sector capital sources are Small Business Investment Corporations (SBIC's) and Minority Enterprise Small Business Investment Corporations (MESBIC). These sources of venture capital are vey limited in number in Philadelphia, which is one reason why PCDC is chartering its own SBIC. However, PCDC has contacts with the two MESBIC's - Alliance Enterprises, Inc. and Greater Philadelphia Venture Capital Corporation, and with Capital Corporation of America, an SBIC.

C. Availability of Debt Capital for Minority Business Enterprises

The results of PCDC's Financial Institution Analysis, and our day-to-day experience in looking for debt financing for small and minority firms, indicates that debt capital is generally available for viable firms.

The problem has been that the private financial institutions require an interest rate at 2 to 3 points above prime and also prefer the shortest possible term. The resultant debt service requirement prices many businesses, projects and ventures out of the market.

This situation has been, or will be exacerbated by four developments in SBA lending programs. The first blow came when SBA increased its direct lending rate from 9% to more than 15%. The second blow will be the elimination of SBA direct loans, as proposed by the Regan Administation FY83 Budget. The third blow will also appear in the BY83 Budget, and will result in a 10% decrease in SBA's loan guarantee authority, at the very time that the Regan Administration is trying to encourage more private sector initiative. The fourth blow will be the eliminiation of SBA's Section 503 certified development loans, which have provided an excellent means of providing small firms with long-term, moderate-rate loans for real estate and equipment. In this program private financial institutions were required to come up with

50% of the total cost of a project, the SBA sold debentures for 40% of the deal and the certified development company was required to provide the remaining 10%. The program is excellent because it leveraged private sector participation, and encouraged financial institutions to become long-term lenders to small businesses.

As mentioned earlier in this document, small businesses, and especially minority businesses, depend almost exclusively on debt as a source of outside capital for their firms. These developments in SBA funding will have a devestating effect on minority firms.

Cuts in other federal business development programs such as EDA & HUD, will have adverse impacts too, but most of the financing for minority firms in this area has been bolstered by SBA-related programs.

Suggestions

I would like to offer the following suggestions as a means of stabilizing or increasing the availability of debt capital to minority firms.

1. The cuts in SBA programs, mentioned above, should be postponed.
2. All SBA-guaranteed bank loans should provide interest-free earnings to the lending institutions involved.

   This will accomplish several things. The tax-free rate would probably be lower than SBA's current direct lending rate. Financial institutions will receive an incentive to become involved in SBA programs that they have heretofore considered bothersome.
3. All of the private lender loans in SBAs Section 503 Certified Development Company program should also receive tax-free treatment.

The suggestions made in paragraphs 2 and 3 above, will comply with the Reagan Administration's desire to reduce Federal direct lending and in turn, stimulate private sector initiative in local development. The tax-free treatment could probably be achieved with a minimum of additional paperwork, because of the extensive documentation already in SBA's program requirements.

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D. Availability of Equity Capital for Minority Business Enterprises

As mentioned earlier in this presentation there is perceived to be a shortage of venture capital in the Philadelphia area, especially for minority firms. Even though the two MESBIC's in the area - Alliance Enterprises, Inc. and Greater Philadelphia Venture Capital Corporation - are actively considering equity or venture deals from the Philadelphia area, a relatively small proportion of their investments are in the Philadelphia area. A significant amount of investments are outside of the Philadelphia area.

Also, the investment frequency of these two MESBIC's has generally been less than five deals a year due in part to limitations on staff and a very selective investment policy, which has excluded the "ordinary growth" firm from consideration. Also,the cost of "borrowing" from a MESBIC or SBIC is much higher than the bank loans discussed earlier. Traditional MESBIC's and SBIC's are looking for an effective rate of return approximately 30%.PCDC has used a $500,000 pool of Community Development Block Grant funds to make subordinated loans and on some occasions venture-type loans. We are currently applying for an SBIC license in order to become more aggressive in this area. PCDC has the ability to subsidize the administrative and staffing cost of Philadelphia Small Business Investment Center (PSBIC), our proposed SBIC, in order to permit us to make more loans at a lower rate, to more businesses.

In regards to better understanding the flow of resources of private financial institutions to small and minority businesses, bank regulators should require more detailed reporting on the small and minority business lending patterns of local financial institutions.

Even though the Philadelphia area banks were very responsive to our Financial Institution Analysis Survey, this may not be the case on a national basis. Strengthening of Community Reinvestment Act regulations would be very helpful.

Suggestions

In an effort to increase the availability of equity and venture capital for minority and small firms I would suggest the following:

1. That MESBIC's and SBIC's in a particular area be required to invest a certain percentage of their funds in the area in which they are based.
2. In return for the above requirement, the Federal government would facilitate the amount of private investment in locally responsive MESBIC's and SBIC's, by providing new investors in such entities with tax credits, equivalent to the value of the investments of made, to individuals and corporations who provide additional private capital to these NEXBIC's and SBIC's.

I offer a statute from the State of Maine as an example of how to implement such a program. Legislation creating the Maine Capital Corporation is shown in Exhibit III.D.

Exhibit NI.D.

STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED
SEVENTY-SEVEN

H. P. 1011 — L. D. 1250

AN ACT Creating The Maine Capital Corporation.

Be it enacted by the People of the State of Maine, as follows:

Sec. 1. 10 MRSA c. 108 is enacted to read:

CHAPTER 108

THE MAINE CAPITAL CORPORATION

§ 950. Statement of legislative findings and intent

The Legislature finds that one of the limiting factors on the beneficial economic development of the State is the limited availability of capital for the long-term needs of Maine businesses and entrepreneurs. In particular, the lack of equity capital to finance new business ventures and the expansion or recapitalization of existing businesses is critical. This lack of equity capital may prevent worthwhile businesses from being established; it may also force businesses to use debt capital where equity capital would be more appropriate. This creates debt service demands which a new or expanding venture may not be able to meet successfully, causing the venture to fail because of the lack of availability of the appropriate kind of capital.

This impediment to the development and expansion of viable Maine businesses affects all the people of Maine adversely and is one factor resulting in existing conditions of unemployment, underemployment, low per capita income and resource underutilization. By restraining economic development, it sustains burdensome pressures on State Government to provide services to those citizens who are unable to provide for themselves.

To help correct this situation, it is appropriate to use the profit motive of private investors to achieve additional economic development in the State. This can be accomplished by establishing an investment corporation to provide equity capital for Maine businesses and by establishing limited tax credits for investors in the corporation to encourage the formation and use of private capital for the critical public purpose of maintaining and strengthening the state's economy.

§ 951. Formation; name; purposes

There is hereby authorized the formation under Title 13-A, of a private investment corporation to be named "The Maine Capital Corporation" for the purpose of making equity investments in new Maine business firms or in existing Maine business firms needing equity capital for purposes of expansion in Maine.

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Exhibit

§ 952. Limitations on purposes and powers

The Maine Capital Corporation shall have all of the general powers of business corporations enumerated in Title 13-A, section 202, except that:

1. Investments and related business dealings. Its equity investments and related business dealing shall be restricted to Maine business firms which, for the purposes of this chapter, shall be defined as Maine corporations, whether or not the same are subsidiaries of foreign corporations, which are doing business primarily in Maine or do substantially all of their production in Maine. Any funds so invested in Maine business firms by purchase of stock or otherwise shall be used by such firms solely for the purpose of enhancing their productive capacities or ability to do business within the State, or to facilitate their ability to generate value added within the State to goods or services for export to out-of-state markets;

2. Investment limited. Its investment in any one Maine business firm shall be limited to a maximum of $200,000;

The Maine Capital Corporation shall not invest in any firm in which a person, or his or her spouse or dependent children, owning common stock of the Maine Capital Corporation holds over a 25% interest;

3. Maximum capitalization. Its maximum capitalization shall not exceed $1,000,000 and shall consist of 10,000 shares of common capital stock having a par value of $100 per share. All shares offered for sale by the corporation shall be for cash at their par value;

4. Commencement of business. Before it commences doing business, the corporation shall have and thereafter maintain a board of 9 directors, 7 of whom shall be elected by the shareholders and 2 of whom shall be appointed by the Governor and shall represent the public interests of the State;

5. Amount of common stock held. No person, firm or corporation shall subscribe for, own or hold directly or indirectly more than 1,000 shares of the common stock of the corporation at any time. For the purposes of determining ownership hereunder, the attribution rules of section 318 of the Internal Revenue Code in effect as of the effective date of this Act shall apply;

6. Payment of dividends. It shall not declare or pay any dividends to its shareholders during its first 5 years of operation and thereafter any dividends shall be paid only on common stock whose holders are not using the credit for investment in the Maine Capital Corporation allowed under Title 36, sections, 5129, 5167 or 5202. Dividends paid shall be limited to a maximum of 50% of retained earnings, with the balance being reinvested according to subsections 1 and 2; and

7. Financial statement. It shall cause to be prepared an audited financial statement, certified by an independent certified public accountant, within 60 days after the close of each fiscal year of its operations, which report shall be distributed to the Governor and Legislative Council and made available to the public, detailing its investment and financial activities.

§ 953. Initial organization; approval of Commissioner of Business Regulation

In order to provide for the initial organization of the corporation, the Governor shall appoint a committee to act as incorporators, consisting of 5 individuals having a business background and experience. The committee shall file with the Secretary of State the articles of incorporation of the corporation which shall reflect the purposes set forth herein. It shall further submit to the Commissioner of Business Regulation for his approval of their conformity with the limitations set forth in section 952, the proposed bylaws of The Maine Capital Corporation, which shall not be adopted or later amended without his approval.

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Exhibit A Cont'd

§ 954. Subscription and sales of stock; first shareholders meetings

The committee, as and when it deems practicable, may solicit and receive subscriptions for the issuance and purchase of the shares of the common stock of The Maine Capital Corporation, provided that subscriptions for amounts exceeding 10 shares shall be reduced pro rata among subscribers subscribing for more than 10 shares in the event the issue is over-subscribed by such termination date as may be set by the committee. At any time in its discretion after the committee has received subscriptions for at least 2,500 shares, it may call and hold an organizational shareholders meeting for the purposes of adopting the proposed bylaws, electing directors and officers, issuing shares of stock and conducting any other business which may properly come before the meeting.

Sec. 2. 36 MRSA § 5129 is enacted to read:

§ 5129. Credit for investment in The Maine Capital Corporation

1. Resident individual. A resident individual shall be allowed a credit against the tax otherwise due under this Part for the taxable year for the amount of any investment in The Maine Capital Corporation.

2. Limitations on credit.

A. The credit allowed under this section shall not exceed 50% of the qualified investment.

B. The credit allowed under this section for any one taxable year shall not exceed the lesser of:

(1) 10% of the qualified investment; or

(2) 50% of the tax imposed on the individual for the taxable year.

C. The credit allowed under this section shall be available only to subscribers in the common stock of the Maine Capital Corporation.

3. Carry forward of the credit. If the amount of the credit determined under subsection 1 and subsection 2, paragraph A, exceeds the limitation provided in subsection 2, paragraph B, such excess shall be a credit carryover to each of the 4 taxable years following the first unused credit year and shall be subject to the annual limitation provided in subsection 2, paragraph B.

4. Recapture for certain dispositions. If the taxpayer disposes of the stock in The Maine Capital Corporation within 6 years after the date on which the taxpayer acquired such stock in a transaction which gives rise to gain or loss for federal income tax purposes, then the tax imposed under this Part for the taxable year in which the disposition occurs shall be increased by an amount equal to the amount allowed as a credit in the year of disposition and all prior years.

Sec. 3. 36 MRSA § 5167 is enacted to read:

§ 5167. Credit for investment in The Maine Capital Corporation

1. Resident estate or trust. A resident estate or trust shall be allowed a credit against the tax otherwise due under this Part for the taxable year for the amount of any investment in The Maine Capital Corporation.

2. Limitation on credit.

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A. The credit allowance under this section shall not exceed 50% of the qualified investment.

B. The credit allowed under this section for any one taxable year shall not exceed the lesser of:

(1) 10% of the qualified investment; or

(2) 50% of the tax imposed on the resident estate or trust for the taxable year.

C. The credit allowed under this section shall be available only to subscribers in the common stock of the Maine Capital Corporation.

3. Carry forward of the credit. If the amount of the credit determined under subsection 1 and subsection 2, paragraph A, exceeds the limitation provided in subsection 2, paragraph B, such excess shall be a credit carry-over to each of the 4 taxable years following the first unused credit year and shall be subject to the annual limitation provided in subsection 2, paragraph B.

4. Recapture for certain dispositions. If the resident estate or trust disposes of the stock in The Maine Capital Corporation within 6 years after the date on which the resident estate or trust acquired such stock in a transaction which gives rise to gain or loss for federal income tax purposes, then the tax imposed under this Part for the taxable year in which the disposition occurs shall be increased by an amount equal to the amount allowed as a credit in the year of disposition and in all prior years.

Sec. 4. 36 MRSA § 5202 is enacted to read:

§ 5202. Credit for investment in The Maine Capital Corporation

1. Taxable corporation. A taxable corporation shall be allowed a credit against the tax otherwise due under this Part for the taxable year for the amount of any investment in The Maine Capital Corporation.

2. Limitation on credit.

A. The credit allowed under this section shall not exceed 50% of the qualified investment.

B. The credit allowed under this section for any one taxable year shall not exceed the lesser of:

(1) 10% of the qualified investment, or

(2) 50% of the tax imposed on the taxable corporation for the taxable year.

C. The credit allowed under this section shall be available only to subscribers in the common stock of the Maine Capital Corporation.

3. Carry forward of the credit. If the amount of the credit determined under subsection 1 and subsection 2, paragraph A exceeds the limitation provided in subsection 2, paragraph B, such excess shall be a credit carry-over to each of the 4 taxable years following the first unused credit year and shall be subject to the annual limitation provided in subsection 2, paragraph B.

4. Recapture for certain dispositions. If the taxable corporation disposes of the stock in The Maine Capital Corporation within 5 years after the date on which the taxable corporation acquired such stock in a transaction which gives rise to gain or loss for federal income tax purposes, then the tax imposed under this Part for the taxable year in which the disposition occurs shall be increased by an amount equal to the amount allowed as a credit in the year of disposition and all prior years.

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IN HOUSE OF REPRESENTATIVES.........................1977

Read twice and passed to be enacted.

....Speaker

IN SENATE.........................1977

Read twice and passed to be enacted.

....President

Approved........................1977

....Governor

Conclusion

My overall suggestion is that federal programs which facilitate financing for small and minority businesses should be closely coordinated between the various federal agencies that are involved. The beginnings of such coordination occured in the federally-sponsored Neighborhood Business Revitalization (NBR) Program. The NBR Program targeted, on a local level, the development programs of EDA, SBA and HUD, with an emphasis on complementary assistance to small businesses. A similar interagency agreement should also include the Minority Business Development Agency as a partner.

In regards to the effectiveness of development assistance for local small businesses please note my comments on the Hunting Park West example which can be found in the text of the document I am presenting to you, today.

Mr. MITCHELL. Ladies and gentlemen, thank you for being here all day. It has been a long, hard day. I know many of you say, "Now, what is the result of all of this? We come, we sit all day, we give testimony. What, if anything, will happen?"

I made up my mind when we started having these field hearings that they would be absolutely useless unless the recommendations and the suggestions that were made at the hearing were put into the operation of the Small Business Committee. I can guarantee you that that will be done. I cannot guarantee you that every recommendation that you made will be acted on favorably by the committee. I cannot guarantee you a lot of things, but I can guarantee you that those recommendations will be sifted through, examined by the full committee and subcommittees, and whenever and wherever it is possible to act on, with the strong, good viable recommendations, we shall do so.

Again, I want to thank the university for its hospitality and Congressman Gray, I do not think we could put on these hearings without you and your staff. I am truly grateful to you, Congressman Gray, for having given us this kind of assistance. It does not mean that you can persuade me to vote on certain things that you want me to vote on. But I do express my gratitude.

Unless there are final comments from the members of the hearing panel. If not, the hearing is now adjourned and we are deeply and sincerely appreciative of your cooperation.

The hearing now stands adjourned.

[Whereupon, at 4 p.m., the hearing was adjourned, to reconvene subject to call of the Chair.]

[The following information was submitted for the record:]

OMNI CONSULTANTS, INC.
418 Lafayette Building Philadelphia, PA 19106 215/925-4966

Engineers and Planners
A Minority Resource
Philadelphia • Atlanta • Miami

Member

March 15, 1982

U.S. House of Representatives
Committee on Small Business
2361 Rayburn Building
Washington, D.C. 20515

Attention: Ms. Donna Stebbins, Counsel

Gentlemen:

Subject: Small Business Committee Hearing
Philadelphia, Pennsylvania, March 15, 1982
Minority-owned Engineering Firms

OMNI CONSULTANTS, INC. is a black-owned engineering firm practicing in the disciplines of civil, environmental, structural and transportation engineering.

The firm's president has 30 years professional engineering experience as a engineer of bridges, highways, buildings weighing systems and as Commissioner of Public Works and City Engineer for Rutland, Vermont.

I am pleased to be afforded this opportunity to provide comments regarding operating a small business consulting engineering firm. Under PL-95-507 and subsequent legislation affecting the 8 (a) Program, I believe the legislation has hurt our type of business rather than been of any benefit.

PL 95-507 had a clause which on its face represented a great opportunity for minority-owned engineering firms. Contracts over $500,000 were to have minority sub-contracting plans. For the last two years, I monitored the Commerce Business Daily, and where a reported contract was awarded in our field of competence exceeded $500,000, I wrote a letter of interest to the prime contractor. My experience in getting sub-contracts under PL 95-507 has been nil to date.

The main reason apparently is that the sub-contracting clause in PL 95-507 stating that minority-owned firms shall have the maximum practicable opportunity has been judged by various agencies OSDBUs, OFPP, and GAO apply only where SUBCONTRACTING OPPORTUNITIES EXIST; further, if a prime contractor represents he can do allwork in house, NO SUBCONTRACTING OPPORTUNITIES EXIST!

If the Northeast Corridor Rail Project had followed this criteria, our firm and manyothers would not exist today. It is the rare engineering project that does not involve separate and discrete tasks which can be subcontracted. The small business legislation should indicate clearly that where a project has discrete tasks, subcontracting opportunities exist.

Another reason is that if a firm doing engineering work is itself a small business, it is not required to sub-contract. The level of revenues for small businesses is variously defined in the Commerce Business Daily as under 500 employees and annual receipts usually under $7,000,000. Rarely do you see an announcement of a size standard of $2,000,000 which would be more representative of most small engineering firms maximum receipts. There were 450 firms in 1980 with over $3,000,000 in billings as reported in the ENR. The small business legislation should provide for size standards based on truly small engineering firms with less than 50 employees and $3,000,000 in receipts in order to be exempt from minority business subcontracting.

SBA is now required to put a time limit on program participation. SBA has had difficulty in involving engineers and architects in its 8 (a) program. The difficulty has been that SBA is not able to identify engineering opportunities to support 8 (a) firms. In our field, it is my opinion that 8 (a) program support is not required for professional firms. The SBA mission with respect to professional firms should be limited to minority certification only.

Many agencies have said that if our firm was certified they could award us a contract. The hitch is the moratorium on 8 (a) enrollment; and that 8 (a) enrollment is caught on SBA capability to handle additional firms given its program responsibilities of 1)certification 2)business planning/approval, 3) selection of potential contracts, 4)administration 5)monitoring/reporting systems, 6)financial/accounting/marketing/technical/management assistance, 7)negotiation of contracts. It is my belief that engineering and perhaps other professionals would be better served if SBA was made responsible for certification only and not for any of the other responsibilities I have listed.

Thank you for this opportunity to provide these comments. I would be pleased to provide any additional information to assist your committee in its deliberations.

Very truly yours,

OMNI CONSULTANTS, INC.

Lyman H. Styles, Jr., P.E.
President .

LHS/jad

PREPARED STATEMENT OF RAGAN A. HENRY, PRESIDENT, BROADCAST ENTERPRISES NATIONAL, INC. AND PUBLISHERS ENTERPRISES NATIONAL, INC.

Mr. Chairman, Members of The Committee, Ladies and Gentlemen:

I am particularly concerned with the plight of minority business in the economic climate that presently besets us. Most of these minority businesses were commenced in the last ten years. They were commenced by entrepreneurs who borrowed very heavily, sometimes borrowing 90% or more of the capital involved in their business at floating interest rates. Not only am I concerned for those minority businesses that now exist, but I am also concerned with the large number of minority people who were taught for years by their Government to believe that the way to be upwardly mobile in our society was to start and operate small businesses. Again, the present economic climate may make it entirely impossible for many of these people to reach that dream which has been and still is held out before them.

Many existing minority businesses were started with what were otherwise marginal loans made by financial institutions partly out of social concern and belief in business solutions. Today, those social concerns are gone. Many private banking institutions and many private venture capital concerns have no special affinity for minority business, and some of these institutions who find themselves already involved appear to have very little patience with the problems and struggles of these businesses, even though much of the problems and struggles may be put upon these businesses not by any doings of their own, but often simply because of the economic climate in which we exist today.

I am in the broadcast business. Traditionally, our industry has grown at a 12% growth rate for many years. Recently this growth rate has declined. Many properties, including several of mine, were acquired with loans at the prime rate, plus some additional charge. For much of the last two years, we have thus been faced with 19 to 21 percent interest rates. The first year I was in business we had ten prime rate changes and a one point difference between the high and low. In 1980 we had 41 changes and a ten point difference between the high and low. Even if I am successful in operating my properties, and I believe that I am, the mathematics of the situation will not work over the long run. There is no way that highly leveraged companies can continue to pay 19 to 21 percent interest rates in an industry that is growing at less than 12% per year, and my industry's growth is better than most.

I believe that this situation is faced by most minority business people today. There are only two things they can do. One is to fail. If they are fortunate enough, as in our case, to have built up substantial assets, then the alternative is to sell off some of the assets to eliminate debt. Neither alternative is desirable. At a time when a goal is to build up small business, forcing that business to sell off assets actually means smaller and fewer small businesses. Business failure is the ultimate defeat, both for the individual and for the country as a whole. We now live in an economic climate when one can have the most successful business in terms of the old standards and still perish.

In addition to the interest rate climate, minority business could be affected by what may be a developing credit crunch. If the Government operates with huge deficits and has to borrow huge amounts of money, this will leave less money available to lend to large and small private businesses. Since it is largely true that minority businesses are the last to be financed and in many instances are the most highly leveraged in the market place, any credit crunch would mean that they would be left out. Literally, minority businesses are the last to receive credit and, if a shortage of funds to lend develops, they will suffer the most.

Given the above two situations, it is absolutely necessary to consider the importance of Government programs as the only real alternatives that minority businesses may have.

The MESBIC programs have filled a much needed role for minority businesses, and their capabilities need to be expanded but on a different basis than they presently operate. Most MESBICS today lend money at interest rates that are not very attractive and also expect large blocks of equity in the companies they finance. It is a source of money that minority business ought to be grateful for, but it can hardly be viewed as a cheap or always appropriate way to finance minority business. The notion that MESBICS supply equity to minority business is largely an illusion. They provide loans by and large. The MESBIC program could be greatly improved if the Government would buy non-voting stock in the MESBICS equal to or greater than their present capital with the requirement that MESBICS be required to invest the proceeds of such stock purchases as pure equity in minority businesses and not as loans.

With the buildup in defense spending and other Governmental spending, the Government may be the best available source of business for many minority entrepreneurs. However, there is reason to think that Government bidding procedures must be reviewed and revised if minority business is to benefit. Many minority businesses complain about their inability to have access to bidding data on a timely basis. All too often, they get the runaround when they seek this data. All too often, the bidding data is received just before the time for filing the bid. The minority businessman is not given time to properly prepare a bid or even submit the same.

The minority businessman is faced with the same kind of problem because of experience requirements and bonding requirements often inserted in Government work. It is very hard for minority business people to compete for half million dollar contracts or to bond the same if they are required to show proof that they have done half million dollar contracts over a long period of time before or can qualify for bonding for the same only after being in business for five years. As applied to minority businessmen, such requirements are totally disqualifying. They do not prove that the minority businessman is incapable of doing the job; they simply make it more difficult for him to have the chance.

The Small Business Administration does have a guarantee program which, to my knowledge, has guaranteed the bonds for some contractors. A liberal expansion of the bond guarantee program would be most useful to many minority entrepreneurs.

The SBA also operates the 8A program which is a great idea and could be used to greatly assist minority businesses. But, in my view, it is often administered to defeat the announced goals of the program. It often takes a great amount of time and effort to qualify. Then if one qualifies and commences to make money on an 8A job, the minority business person often finds himself or herself being offered smaller contracts on 8A and the major part of the work they had is put back out to competitive bidding. There is a specific case in Philadelphia of a company which negotiated a two year 8A contract at about $2,000,000. The Small Business Administration and the Government agency involved refused to go forward with the second year. Instead, they offered the company approximately a $200,000 job and put the rest of the work out for bid. The company involved had geared up to do the $2,000,000 job for two years. If it does not have the job for the second year, it will lose more than the new contract is worth and more than likely will have to go out of business. It has proven that it could do the whole job and should be given the opportunity to do so.

The problem that many minority businessmen have had with the Small Business Administration and other governmental agencies in the 8A program is that any kind of success is taken as a sign of graduation from the 8A program. Companies ought to be permitted to stay in 8A until they are reasonably solid and profitable. To do otherwise defeats the very goal of the program.

In summary, these are very hard times for small business and small minority business in particular. There is a real need for more, not less, support from the Small Business Administration, the MESBICS and other Government programs intended to support minority business.

This is particularly so when business has for so long been held out to the minority community as a viable route to a place in the economic scheme of things. Many minority business people have started down that route. Others are poised to take their places. Unless something is done, those already in business face likely defeat by the present economic climate, and those who are poised won't have a chance to start at all.

I was recently asked by a non-minority small businessman about whether or not I was bitter about what the present economic climate in the United States was doing to small business and to me in particular. I had to answer that I was not bitter, but I had to say that I understood why he was bitter and why many other small businessmen and minority businessmen were bitter about the present situation. They are productive in the conventional sense of the word but are being robbed of their productivity by an economic system that has recently worked to confiscate their productivity. Although I try not to deal in bitterness, I can see a great trail of bitterness being left in the small business community unless things change drastically and soon.

I appreciate your attention and the opportunity to appear before the Committee.

Respectfully submitted,

Ragan A. Henry